Dee Development Engineers Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	40.96 (enhanced from 31.15)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Ratings reaffirmed; Outlook revised from 'Stable' to 'Negative'**
Short term Bank Facilities	283.99 (reduced from298.90)	**CARE A2 (A Two)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	492.25 (enhanced from 464.25)	**CARE A-; Negative/CARE A2 (Single A Minus; Outlook: Negative/ A Two)**	**Ratings reaffirmed; Outlook revised from 'Stable' to 'Negative'**
Total	**817.20 (Rs. Eight hundred seventeen crore and twenty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to bank facilities of Dee Development Engineers Limited (DDEL) continue to derive strength from extensive experience of the promoters, the company's long track record of operations and its steady operational performance with healthy operating margins and moderate financial risk marked by moderate gearing as well as debt coverage metrics and adequate liquidity position. However, the ratings are constrained by working capital intensive nature of operations and increasing exposure towards group companies which are yet to scale up their operations and require intermittent funding support. The ratings take cognizance of reduction in order book position of the company though it has sizable orders in the pipeline, some of which may translate into future orders.

Going forward, the company's ability to execute the orders in a timely manner, increase its order book and effectively manage its working capital requirements shall remain key rating sensitivities. Further, any higher than envisaged exposure towards the group entities shall also remain a sensitivity.

Outlook: Negative

The outlook has been revised to negative as it is expected that DDEL's working capital requirements will remain at elevated levels. The outlook may be revised to stable if the company is able to rationalize its working capital cycle thereby resulting in better liquidity position.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: DDEL is promoted by Mr K L Bansal who is technically qualified and has vast experience in the piping systems business. He is supported by a team of professionals who have vast experience in their respective fields. The company is one of the leading players in the pre-fabrication piping industry in India and has also built up strong credentials over the years in the export market driven by virtue of its strong technical foothold and product performance. In August 2015, Carlyle group acquired 32.38% stake in the company through its fund 'First Carlyle Ventures III' (Carlyle). As part of the investment, Carlyle infused fresh equity of Rs.122 crore in the company and also inducted two senior members in the board of directors of DDEL.

Steady operational performance: Total operating income of DDEL remained stable at Rs 536.50 cr during FY19 (refers to period: April 01 to March 31) (PY: Rs 536.02 cr) on account of steady capacity utilization of 82% in FY19 (PY: 82%). PBILDT margin slightly moderated but remained healthy at 17.28% in FY19 (PY: 17.82%). DDEL reported a GCA of Rs 50.35 cr in FY19 (PY: Rs 40.60 cr). As per unaudited figures available for 5MFY20 (refers to period: April 01 to August 31), DDEL has reported total operating income of Rs 222.78 cr with PBILDT and PBT of Rs 25.06 cr and Rs 4.31 cr respectively.

Moderate financial risk profile: The overall gearing improved and stood comfortable at 0.79x as on March 31, 2019 (PY: 0.92x) on account of repayment of term loan and accretion of profits adding to net-worth. Total debt to GCA showed an improving trend to 7.00x in FY19 (PY: 9.38x) but was yet in the moderate range. Interest coverage ratio moderated due to slight increase in interest costs arising out of higher working capital utilization.

Reputed client albeit reduction in order position: DDEL primarily caters to multinational OEMs of power generation equipments, Engineering, Procurement and Construction (EPC) contractors serving power, process and oil and gas industry. Clientele of the company includes companies like HPCL-Mittal Energy Limited (HMEL), Mitsubishi Hitachi Power

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Systems (MHPS), General Electric (GE), Dangote, Nooter Eriksen, Toshiba, Doosan, L&T, Thermax and BHEL which have been providing repeat orders to the company. As on September 01, 2019, DDEL has an order book of Rs.470.84 crore, which is 0.88x of FY19 total income providing revenue visibility till first half of FY20. However, the management expects to get substantial orders from orders in pipeline which stood at around Rs 800 cr as on September 01, 2019 and are expected to be finalized in Q3/Q4 of the current financial year.

Key Rating Weakness

Working capital intensive nature of operations: Owing to the nature of business, operations of the company are working capital intensive with elongated collection period and inventory holdings. The operating cycle of the company increased from 275 days in FY18 to 314 days in FY19. The average receivables days increased from 167 days in FY18 to 178 days in FY19 and inventory days increased from 164 days in FY18 to 207 days in FY19. However, despite the increase in working capital requirements, the company has adequate working capital lines available to support its operations.

Exposure towards subsidiaries: As on March 31, 2019, total investments by DDEL in subsidiaries increased to Rs 55.86 cr (PY: 40.02 cr). The company has also provided support to subsidiaries to service debt and for operational support in form of loans and advances which stood at Rs 33.55 cr as on March 31, 2019 (PY: 18.34 cr). Also, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of Rs 75.24 cr as on March 31, 2019 (PY: Rs 66.63 cr). The envisaged improvement in operational performance of subsidiaries and any higher than expected support provided by DDEL shall remain a key monitorable.

Adequate Liquidity: The company has cash & bank balances of Rs.64.76 crore of which free cash stood at Rs 14.73 cr as on March 31, 2019. Average fund based working capital utilization stood moderate at 73% for trailing 12 months ended July, 2019. Also, the company has inter-changeability from non-fund based limits to fund based limits to the extent of Rs.45 crore, in addition to the fund-based limits of Rs.200 crore which provide additional cushion. During FY20, DDEL is expected to report a GCA of Rs 48.15 cr as against term loan repayment of Rs 7.70 cr with capex of Rs 12.00 cr to be done by availing a fresh term loan.

Industry outlook and prospects: Relatively large investments and technical qualification requirements restricts entry of new players specialized in pre-fabricated piping business. Due to cost advantage, India is becoming a hub of Energy Equipment OEMs. Also, with offsite piping happening in other process industries and established credentials of the company leading to newer export orders, long-term prospects of DDEL remain stable.

Analytical approach: Standalone. Also, since the company has provided corporate guarantees for its wholly-owned subsidiaries (i.e. Malwa Power Pvt Ltd, Dee Piping Systems Thailand and Dee Fabricom India Private Limited), the same is factored in the analysis.

Applicable criteria -

Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

DDEL was incorporated on March 21, 1988 and provides design, detailed engineering and fabrication of pressure piping systems to clients across diversified industries such as power, process and oil & gas. DDEL is a leading private sector manufacturer of piping systems in India and amongst the top ten in the world. The company's manufacturing range includes high-pressure piping systems, induction pipe bends, pipe fittings, pressure vessels, hanger & support and other tailor-made fabricated components. The company specialises in alloy steel P91, P92 piping fabrication along with air quench P91 induction bend technology and also offers a wide range of engineering services for advanced piping solutions.
The company has a manufacturing facility with an installed capacity of 36,000 MT (carbon-steel equivalent) in Palwal District, Haryana adjoining Faridabad as on March 31, 2019 and an engineering office in Chennai. It has in-house fittings manufacturing facility, dedicated design & engineering division and induction bending section. The company is an ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certified company and a certified manufacturer of pipe spools and pipe fittings under the purview of Pressure Equipment Directive (PED) norms, ASME Code Stamp Piping, IBR and other industrial standards. DDEL also operates a biomass power plant of 8 MW capacity at Abohar, Punjab.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	536.02	536.50
PBILDT	95.54	92.71
PAT	19.38	31.71
Overall gearing (times)	0.92	0.79
Interest coverage (times)	3.47	3.20

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	2026	30.96	CARE A-; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	302.25	CARE A-; Negative / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	283.99	CARE A2
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	190.00	CARE A-; Negative / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	30.96	CARE A-; Negative	-	1)CARE A-; Stable (31-Jan-19)	1)CARE A-; Stable (05-Oct-17)	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	302.25	CARE A-; Negative / CARE A2	-	1)CARE A-; Stable / CARE A2 (31-Jan-19)	1)CARE A-; Stable / CARE A2 (05-Oct-17)	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)
3.	Non-fund-based - ST-Letter of credit	ST	283.99	CARE A2	-	1)CARE A2 (31-Jan-19)	1)CARE A2 (05-Oct-17)	1)CARE A2 (14-Oct-16) 2)CARE A2 (13-Jul-16)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Negative	-	1)CARE A-; Stable (31-Jan-19)	1)CARE A-; Stable (05-Oct-17)	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	190.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Stable / CARE A2 (31-Jan-19)	1)CARE A-; Stable / CARE A2 (05-Oct-17)	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)

Annexure-3: Details of covenants - NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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