Dhansar Engineering Company Private Limited
April 4, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities (Term Loan)	85.00	**CARE BBB+, Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities (Cash Credit)	57.00		
Long term Bank Facilities (Bank Guarantee)	119.09		
Total	**261.09 (Rs. Two Hundred Sixty One Crore and Nine Lakh Only)**		

Details of facilities in Annexure-1

Detailed description of the key rating drivers

The ratings assigned to the bank facilities of Dhansar Engineering Company Private Limited (DECPL) continues to draw strength from experienced promoters with long track record of operations, large fleet of owned heavy equipment, reputed clientele, healthy order book position and comfortable financial risk profile. The ratings are however constrained by moderate financial performance in FY18 (refers to period from April 1 to March 31), client concentration risk, risk of delay in project execution, tender based nature of operations, susceptibility of profitability to volatility in input prices, capital intensive nature of business and regulatory risk in the mining industry. Going forward, ability of the company to secure new orders, maintaining profitability margin at the current level, timely execution of contracts and efficient management of working capital are the key rating sensitivities.

Key Rating Strengths

Experienced promoters with long track record of operation: The company is managed by Mr Manoj Agarwalla, Chairman, who has an experience of more than 25 years in the mining activities. He looks after the day-to-day operations of the company along with the support of his son, Mr Harsh Agarwalla, who looks after the finance function of the company.

Large fleet of owned heavy equipment: The company has established a large fleet of heavy equipment and vehicles with more than 650 owned heavy equipment / vehicles (including dozers, dumpers, excavators and trailers) leading to low reliance on hired equipment / vehicles.

Reputed clientele albeit client concentration risks: DECPL has distinguished clients in their respective line of business. The company has established strong relationship with its clients and has been

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

continuously successful in getting repeated orders from its clients in the past, which indicates satisfactory project execution capabilities. However, the company is exposed to client concentration risk as the top three clients account for more than 90% of the total order book and about 68% of the orders are from the coal sector as on December 31, 2018.

Healthy order book position: DECPL's order book position slightly moderated from Rs.1,853.82 crore as on Dec 31, 2017 to Rs.1,742.89 crore as on Dec 31, 2018 representing 2.46x of the total operating income for FY18. Of the orders outstanding as on December 31, 2018, order amounting to Rs.997.89 is outstanding in relation to orders secured in the current fiscal during 9MFY19. However, even after moderation of order book, it continues to remain at healthy level.

Comfortable financial risk profile: Overall gearing ratio improved from 1.06x as on March 31, 2017 to 0.72x as on March 31, 2018 mainly due to low debt level and accretion of profit to reserves. Total debt/GCA has remained stable at 2.01x in FY18 (1.96x in FY17). Overall gearing and total debt/ GCA stood at 0.65x and 1.75x respectively as on December 31, 2018.

Liquidity

The company's operation is working capital intensive in nature due to maintenance of stores & spares for around 2-3 weeks for its heavy equipment and provide credit period of around 2 months to its customers. The liquidity position of the company was comfortable as evident from the average utilization of its working capital limit at ~56% during the past twelve months ending January 2019. The current ratio improved from 1.12x as on March 31, 2017 to 1.29x as on March 31, 2018. This apart the company had free cash and bank balance and loans and advances given of Rs.1.34 crore and Rs.18.29 crore respectively as on March 31, 2018.

Key Rating Weakness

Moderate financial performance in FY18: The total operating income of DECPL declined by ~8% y-o-y to Rs.707.37 crore in FY18. PBILDT margins moderated from 12.61% in FY17 to 11.81% in FY18. Lower PBILDT level coupled with relatively stable interest cost led to slight moderation in interest coverage ratio from 6.00x in FY17 to 5.35x in FY18. In FY18, the company reported GCA of Rs.65.14 crore vis-à-vis term debt repayment obligation of Rs.56.05 crore.

In 9MFY19, the company reported PBILDT of Rs.72.60 crore on total operating income of Rs.525.00 crore as against PBILDT of Rs.75.11 crore on total operating income of Rs.498.11 crore in 9MFY18.

Risk of delay in project execution: DECPL's business is susceptible to financial loss arising out of delay in project execution or inferior performance as generally there are penalty clauses for extraction of minerals below the agreed minimum level of quantity. However, the company has not borne any penalty amount in the past four years.

Tender based nature of operations: The mining contracts awarded by PSUs are centred on tender based nature of operations. In view of stable coal production in India over the last three years the competition for contract coal miners has increased, thereby exposing its revenues and profitability susceptible to the risks of tender based business.

Profitability susceptible to volatility in input prices: DECPL contracts mainly comprise income from excavation and evacuation services which are based on per tonne of coal excavated/evacuated and run over the period of contract. The major costs for such services are the hire charges for equipment followed by diesel cost for plying the equipment and labour. However, the company has an escalation clause in most of its contract to pass on the increase in diesel and labour cost to its client based on certain formulae, which mitigates the risk of volatility of diesel & labour cost to a certain extent**.**

Capital intensive nature of business: The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc) for replacement purpose.

Regulatory risk in the mining industry: The Indian mining industry is regulated by the Government of India and thus DECPL is exposed to the risk attached to ban on mining activities of its client due to sudden change in government policy.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector

About the Company

Dhansar Engineering Company Private Ltd. (DECPL), incorporated in 1955, was promoted by Late Mr. Basant Kumar Agarwalla of Dhanbad, Jharkand. After remaining dormant for over four decades, DECPL started civil construction activities in 1998. From 2003 onwards, the company forayed into support services of mining (coal, iron ore, bauxite, zinc and chromite ore) activities such as removal of over burden, drilling & blasting, extraction of mineral, transportation to railway siding, site levelling, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	769.73	707.37
PBILDT	97.07	83.53
PAT	30.19	18.65
Overall gearing (times)	1.06	0.72
Interest coverage (times)	6.00	5.35

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

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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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
Fund-based - LT-Term Loan	-	-	-	85.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	57.00	CARE BBB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	119.09	CARE BBB+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	85.00	CARE BBB+; Stable	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Positive (12-Apr-17)	-	1)CARE BBB (12-Jan-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	-	1)Withdrawn (12-Jan-16)
3.	Fund-based - LT-Cash Credit	LT	57.00	CARE BBB+; Stable	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Positive (12-Apr-17)	-	1)CARE BBB (12-Jan-16)
4.	Non-fund-based - LT-Bank Guarantees	LT	119.09	CARE BBB+; Stable	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Positive (12-Apr-17)	-	1)CARE BBB (12-Jan-16)

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CIN - L67190MH1993PLC071691