Dhansar Engineering Company Private Limited

April6, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	235.09 (reduced from 235.59)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Rating reaffirmed and outlook revised from Positive to Stable
Total Bank Facilities	**235.09 (Rupees two hundred thirty five crore and nine lakhs only)**		

Detailed Rationale& Key Rating Drivers

The rating assigned to the bank facilities of Dhansar Engineering Company Private Ltd (DECO) continues to draw strength from experienced promoters with long track record of operations, large fleet of owned heavy equipments, reputed clientele, improvement in financial performance in FY17 (refers to the priod April 1 to March 31) albeit moderation in 9MFY18, healthy order book position and comfortable capital structure. The rating, however, continues to be constrained by the profitability susceptible to volatility in input prices, presence of penalty clause for under-performance, capital intensive nature of business and regulatory risk in the mining industry. The ability of the company to increase its scale of operations, timely execution of the projects and efficient management of working capital would remain the key rating sensitives.

Detailed description of the key rating drivers

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: DECO has distinguished clients in their respective line of business. The company has established strong relationship with its clients and has been 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 as on December 31, 2017.

Healthy order book position: DECO's order book position moderated from Rs.2143.65 crore as on Dec 31, 2016, to Rs.1835.82 crore as on Dec 31, 2017, representing 2.38x of the net billing of FY17. The moderation was mainly on account of near-completion stage of projects from SAIL and CIL. However, even after moderation of order book, it continues to remain at satisfactory levels.

Improvement in the financial performance in FY17 & 9MFY18:DECO's total operating income grew by 31.96% y-o-y to Rs.771.98 crore in FY17 due to higher execution of orders in hand. PBILDT margins moderated from 14.12% in FY16 to 12.87% in FY17 on the back of lower margins in few contracts due to higher sub-contracting cost. However, on an absolute level, the PBILDT increased by 20.2% to Rs.99.32 crore in FY17. Higher PBILDT levels coupled with relatively stable interest cost led to improvement in interest coverage from 5.47x in FY16 to 6.14x in FY17. In FY17, the company reported GCA of Rs.87.13 crore vis-à-vis debt repayment obligation of Rs.39.69 crore.
The current ratio moderated from 1.15x in Mar 31, 2016 to 1.12x as on Mar 31, 2017 mainly on account of higher amount of current portion of debt. Operating cycle improved from 32 days in FY16 to 27 days in FY17 mainly due to lower inventory creditors.
In 9MFY18, the company reported PBILDT of Rs.75.11 crore on net revenues of Rs.498.11 crore.

Comfortable capital structure:The capital structure of the company continued to remain comfortable as the overall gearing improved from 1.19x as on Mar 31, 2016 to 1.06x as on Mar 31, 2017 and further to 0.81x as on Dec 31, 2017 despite higher term loan due to accretion of profit to reserves. Total debt/GCA also improved from 2.27x in FY16 to 2.27x in FY16 and further to 1.99x in 9MFY18 due to relatively stable debt levels and increase in cash accrual.

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

Key Rating Weaknesses

Presence of penalty clause for non-performance:DECO'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 three years.

Profitability susceptible to volatility in input prices:DECO's contracts mainly include excavation and evacuation services which are based on per tonne of coal evacuated and run over the period of contract. The major costs for such services are the hire charges for equipment, diesel and labour and any major change in the cost structure may lead to a decline in profitability. However, the company has an escalation contract 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 capital expenditure for procuring heavy earthmoving equipments (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc) for replacement purpose. Furthermore, the company's operation is also working capital intensive in nature.

Regulatory risk in the mining industry:The Indian mining industry is highly regulated by the government of India and thus DECO is exposed to the risk attached to sudden change in government policy on mining industry.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

Dhansar Engineering Company Private Ltd. (DECO), incorporated in 1955, was promoted by Late MrBasant Kumar Agarwalla of Dhanbad, Jharkand. After remaining dormant for over four decades, DECO started civil construction activities in 1998. From 2003 onwards, the company forayed into support services of mining activities such as removal of over burden, extraction of coal, site leveling, drilling & blasting, transportation & wagon loading, etc. Before DECO came into prominence in 1998, the promoters were engaged in mining and construction activities for more than 3 decades through their group companies.

Financials of Dhansar Engineering Company Private Limited (Standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	585.01	771.98
PBILDT	82.63	99.32
PAT	22.52	30.19
Overall gearing (times)	1.19	1.06
Interest coverage (times)	5.47	6.14

Status of non-cooperation with previous CRA: 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	-	-	March 2020	64.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	52.00	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	60.48	CARE BBB+; Stable	-	1)CARE BBB+; Stable (02-May-17)	1)CARE A- (12-Apr-16)	1)CARE A- (20-May-15) 2)CARE A- (22-Apr-15)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	65.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (02-May-17)	1)CARE A- / CARE A2+ (12-Apr-16)	1)CARE A- / CARE A2+ (20-May-15) 2)CARE A- / CARE A2+ (22-Apr-15)

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