

Dhansar Engineering Company Private Limited

April 12, 2017

Ratings

Facilities*	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	235.59 (enhanced from 219.21)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Revised from CARE BBB (Triple B)
Total	235.59 (Rupees Two Hundred Thirty Five crore and Fifty Nine lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Dhansar Engineering Company Private Ltd (DECO) is on account of improvement in financial performance of the company in FY16 (refers to the period April 1 to March 31) & 10MFY17. The rating continues to draw strength from experienced promoters with long track record of operations, large fleet of owned heavy equipments, reputed clientele, 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 inferior 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.

Outlook: Positive

The outlook on the long-term rating is 'Positive' on expectation of sustained improvement in the financial performance of the company over the medium-term. The outlook may be revised to 'Stable' in the event of slower than expected pace of execution of its outstanding order book.

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 621 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 98% of the total order book as on December 31, 2016.

Healthy order book position marked by client concentration risk: DECO's order book position increased from Rs.1,622.86 crore as on October 31, 2015 to Rs.2,143.65 crore as on December 31, 2016, representing 3.66x of the net billing of FY16.

Improvement in the financial performance in FY16 & 10MFY17: DECO's total operating income grew by 24.26% y-o-y to Rs.585.01 crore in FY16. PBILDT margins moderated from 16.34% in FY15 to 14.12% in FY16. However, on an absolute basis, PBILDT increased by 7.42% y-o-y to Rs.82.63 crore in FY16. Higher PBILDT coupled with relatively stable interest cost led to improvement in interest coverage from 5.18x in FY15 to 5.47x in FY16. In 10MFY17, the company reported PAT of Rs.20.11 crore on total operating income of Rs.610.62 crore.

Comfortable capital structure: The overall gearing & total debt /GCA improved from 1.24x & 2.36x as on March 31, 2015 to 1.19x & 2.27x as on March 31, 2016 and 1.01x & 1.87x as on January 31, 2017, respectively. The liquidity position of the company was also comfortable in the past 12 months, with average utilization of fund-based working capital limit at around 70% during March 2016 – February 2017.

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 capex 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](#)

[Criteria for Short Term Instruments](#)

[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 Mr Basant 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.

As per the audited results for FY16, DECO reported a PAT of Rs.22.52 crore (Rs.12.88 crore in FY15) on total operating income of Rs.585.01 crore (Rs.470.78 crore in FY15). Based on provisional results for 10MFY17, DECO reported PAT of Rs.20.11 crore on total operating income of Rs.610.62 crore.

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.

Analyst Contact:

Name: Mr Utkarsh Nopany

Tel: 033-401816005

Cell: +91-9836186474

Email: utkarsh.nopany@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	Sep 2020	73.00	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	56.00	CARE BBB+; Positive
Non-fund-based - LT-Bank Guarantees	-	-	-	106.59	CARE BBB+; Positive

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	73.00	CARE BBB+; Positive	-	1)CARE BBB (12-Jan-16)	1)CARE BBB (09-Jan-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)Withdrawn (12-Jan-16)	1)CARE A3+ (09-Jan-15)
3.	Fund-based - LT-Cash Credit	LT	56.00	CARE BBB+; Positive	-	1)CARE BBB (12-Jan-16)	1)CARE BBB (09-Jan-15)
4.	Non-fund-based - LT-Bank Guarantees	LT	106.59	CARE BBB+; Positive	-	1)CARE BBB (12-Jan-16)	1)CARE BBB (09-Jan-15)

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691