October 06, 2020

Dhansar Engineering Co. Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	57.00	56.10	[ICRA]BBB+/Stable; Reaffirmed
Fund-based – Term Loans	99.91	143.83	[ICRA]BBB+/Stable; Reaffirmed
Non-fund Based Limits – Bank Guarantee	119.09	124.19	[ICRA]BBB+/Stable; Reaffirmed
Non-fund Based Limits – Letter of Credit	(5.00)**	(5.00)**	[ICRA]A2; Reaffirmed
Total	**276.00**	**324.12**	

**Instrument details are provided in Annexure-1; **Sublimit of bank guarantee limits*

Rationale

The ratings reaffirmation considers the steady performance of Dhansar Engineering Co. Private Limited (DECO) in FY2020, with an improvement in the operating profits and the operating margins, which increased to ~Rs.87 crore and 14.1%, respectively from ~Rs.76.4 crore and 10.6%, respectively in FY2019. The operating profits and the operating margins improved on the back of its shift towards execution of more profitable contracts, notwithstanding a decline in the turnover in FY2020 due to lower execution of orders. Despite an increase in debt levels in FY2020, DECO's capital structure remained comfortable with a gearing of 0.9 times owing to healthy accretion to reserves over the past few years, which continued to strengthen its net worth. The debt coverage indicators, as reflected by interest coverage and Total Debt/OPBDITA remained healthy at 5.3 times and 2.4 times, respectively, in FY2020. While reaffirming the ratings, ICRA has noted the large orders won over the last 12 months from Haryana State Industrial and Infrastructure Development Corporation Limited and Tata Steel Mining Limited, which boosted the order book position of DECO to Rs. 7,415 crore as on June 1, 2020. The said order book position was 12.3 times of the operating income of FY2020, providing ample revenue visibility. The ratings also consider the established track record of the company in the contract mining business with an experience of over a decade, and its wide range of mining service delivery capabilities, supported by a large fleet of owned heavy earthmoving machinery. The ratings also consider DECO's strong client profile, largely mitigating the counterparty credit risks, and its track record of contract renewals with existing clients, which demonstrates its project execution capabilities.

The ratings are, however, constrained by the tender-based nature of the contract mining business and a larger proportion of hired fleet of equipment, both of which limit the scope for margin improvement to a large extent. The ratings take into account the high geographical and project concentration risks, with the order book largely confined to three states viz. Odisha, Jharkhand and Haryana and the top-three projects contributing 70% to the outstanding orders as on June 1, 2020. Besides, the company is exposed to project execution risks as 89% of its order book as on June 1, 2020 was in the nascent stages of execution (less than 25% execution). Any slowdown in the execution of these major projects would adversely impact the company's revenues in the near term. The rating further remains constrained by the sizeable non-core investments into Group entities and other corporates although ICRA understands that a part of the investment has already been recovered in the current fiscal and no incremental exposure to any Group entities or other corporates is envisaged in the near term. While assigning the ratings, ICRA has noted the current stretch in the receivable position, which has impacted its cash flows from operations. However, the same has not resulted in any material increase in bank borrowings with the company funding the working capital by recovering its investments. While the

Covid-19 pandemic has had some impact on the gross billing of DECO, a ramp-up of operations with the new orders is likely to support the overall revenue recognition in the current fiscal.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that DECO's cash flows would continue to remain comfortable relative to its debt service obligations. With most of the equipment needed for execution of new contracts to be met through a hired fleet, the required investments in assets by the company would be limited. This would keep the financial leverage of DECO range bound at around the current levels over the short to medium term.

DECO has sought a moratorium on payments from its lenders as a part of the Covid-19 Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments for March, April, May, June, July and August 2020 were deferred by the company. However, as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not recognised this instance as a Default.

Key rating drivers and their description

Credit strengths

Established track record in the contract mining business – The company has been in the business of contract mining since 2003 and is involved in the mining of coal, iron ore, bauxite, zinc, stone and chromite ore. DECO's services also include site levelling and grading, drilling, removal of overburden, extraction of mineral, and its transportation to railway siding. The company has a demonstrated project execution capability, backed by a fleet of over 650 heavy earthmoving vehicles and experienced personnel.

Reputed client profile, leading to low counterparty risk – The company has a reputed client base, which includes Hindustan Zinc Limited, Tata Steel Mining Limited, Odisha Mining Corporation Limited, Bharat Coking Coal Limited and Haryana State Industrial and Infrastructure Development Corporation Limited among others. With a reputed client base, the counterparty risk is also reduced to a large extent. Moreover, ICRA derives comfort from the company's track record of contract renewals with existing clients, which demonstrates strong project-execution capabilities.

Healthy order book position provides medium-term revenue visibility – DECO has a healthy outstanding order book of Rs. 7,415 crore as on June 1, 2020, which is 12.3 times of the operating income in FY2020. Out of this, orders worth Rs. 3,000 crore were awarded by Haryana State Industrial and Infrastructure Development Corporation Limited in FY2020 for mining of stone, which would be executed over 20 years from the day of commencement of operations. In addition, two major orders of Rs. 2,005 crore were received from Tata Steel Mining Limited in FY2021 for mining of chromite ore and overburden removal, which will be executed over ten years. ICRA believes that execution of these orders, along with other outstanding orders will improve the revenue visibility of DECO over the near to medium term. Nonetheless, timely execution of these orders would remain a key revenue determinant, going forward.

Favourable financial profile characterised by a comfortable capital structure and healthy coverage indicators – Despite an increase in debt levels in FY2020, DECO's capital structure remained comfortable with a gearing of 0.9 times as on March 31, 2020 owing to a healthy accretion to reserves over the past few years, which continued to strengthen its net worth. The debt coverage indicators, as reflected by interest coverage and Total Debt/OPBDITA, remained healthy at 5.3 times and 2.4 times, respectively, in FY2020. With most of the equipment needed for execution of new contracts to be met through a hired fleet, the required investments in assets by the company would be limited. This would keep the financial leverage of DECO range bound at around the current levels over the short to medium term.

Credit challenges

Tender-based nature of contracts limits scope for margin improvement – DECO procures orders through tenders. Entities that meet the technical qualification criteria qualify for financial bidding, and subsequently the contract is awarded to the lowest (L1) bidder. Due to such tender-based order procurement, the company faces stiff competition.

High geographical and project concentration, exposure to project execution risks – The geographical and project concentration risks are high with the order book largely confined to Odisha, Jharkhand and Haryana and the top-three projects contributing 70% to the outstanding orders as on June 1, 2020. Therefore, any slowdown in the execution of these major projects or disturbances in the region of operations could affect the company's revenues. The company remains exposed to project execution risks with 89% of the order book as on June 1, 2020 in the nascent stages of execution (less than 25% execution).

Sizeable non-core investments – The company has sizeable non-core investments in Group entities and other corporates, which stood at ~Rs. 67 crore at the end of FY2020. ICRA understands that a part of the investment has already been recovered in the current fiscal and no incremental exposure to any Group entities or other corporates is envisaged in the near term. Adjusting for these investments in Group entities and other corporates from the net worth, the adjusted gearing stood at 1.35 times as on March 31, 2020.

Liquidity position: Adequate

DECO's fund flow from operations is likely to remain healthy in the near to medium term, given the strong revenue visibility and healthy operating margins. It has significant debt repayment obligations in the near term. Moreover, the cash margin on sizeable bank guarantee provided as performance security and retention money withheld by customers as per the terms of the contracts lead to blockage of funds. However, ICRA expects the cash accruals from the business would remain adequate to meet the company's debt servicing obligations. Its average fund-based working capital utilisation has remained comfortable over the 12 months ended May 2020 and stood at ~57%.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings of DECO in case of a diversification in the order book, a significant increase in revenues with sustained profitability, and no further elongation of cash conversion cycle. A specific trigger for the upgrade could be DSCR remaining above 1.8 times on a sustained basis.

Negative triggers – Pressure on DECO's rating could arise if there are delays in execution of newly awarded projects, a stretch in the working capital cycle and/or a significant increase in debt levels, leading to a deterioration of leverage and coverage metrics. Additionally, any significant increase in investments in Group entities or other corporates will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Incorporated in 1955, Dhansar Engineering Co. Private Limited (DECO) is a Dhanbad-based company with an experience of over a decade in the contract mining business. The company is involved in the mining of coal, iron ore, bauxite, zinc, stone and chromite ore. Its services also include site levelling and grading, drilling, removal of overburden, extraction of mineral, and its transportation to railway siding.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	722.4	615.3
PAT (Rs. crore)	24.6	18.0
OPBDIT/ OI (%)	10.6%	14.1%
PAT/OI (%)	3.4%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5
Total Debt/OPBDIT (times)	1.9	2.4
Interest Coverage (times)	6.4	5.3

Source: DECO

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on 31-March-2020	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					06 October 2020	15 July 2019	02 April 2018	-
1	Cash Credit	Long Term	56.10	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loans	Long Term	143.83	163.71	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Bank Guarantee	Long Term	124.19	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
4	Letter of Credit	Short Term	(5.00)**	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-

*Amount in Rs. Crore; **Sublimit of bank guarantee limits*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	56.10	[ICRA]BBB+ (Stable)
Term Loans	-	-	Outer limit of March 2023	143.83	[ICRA]BBB+ (Stable)
Bank Guarantee	-	-	-	124.19	[ICRA]BBB+ (Stable)
Letter of Credit	-	-	-	(5.00)**	[ICRA]A2

*Source: DECO; **Sublimit of bank guarantee limits*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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