

February 20, 2017

Dhansar Engineering Co. Pvt. Ltd.

Instruments*	Amount Rated	Rating Action
Cash Credit	56.00	[ICRA]BBB+(Stable) (outstanding)
Bank Guarantee	106.59 (enhanced from 19.00)	[ICRA]BBB+(Stable) (assigned/outstanding)
Term Loan	72.41	[ICRA]BBB+(Stable) (assigned)
Letter of Credit	(5.00)**	[ICRA]A2 (assigned)

*Instrument details are provided in Annexure-1

**sublimit of bank guarantee limits

Rating Action

ICRA has assigned a long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)¹ to the Rs. 106.59-crore² (enhanced from Rs 19 crore) bank guarantee, and Rs 72.41-crore term loan facilities of Dhansar Engineering Co. Pvt. Ltd. (DECO). ICRA has also assigned a short term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs 5-crore letter of credit (which is a sublimit of bank guarantee limits) facilities of DECO. ICRA has an outstanding long term rating of [ICRA]BBB+ on the Rs. 56-crore cash credit facilities of DECO. The outlook on the long-term rating is “Stable”.

Rationale

The rating takes into account the established track record of DECO in the contract-mining business with an experience of over a decade, and the company’s wide range of mining service delivery capabilities, supported by a large fleet of owned heavy earth moving machineries. ICRA notes that in the last one year, DECO has been able to add multiple large orders, which has led to a healthy closing order book position of Rs 2,188 crore as on November 30, 2016, providing revenue visibility of over three years. Additionally, the rating derives strength from DECO’s strong client profile, which largely mitigates counterparty credit risks, and ensures timely receipt of receivables. The rating factors in the company’s track record of contract renewals with existing clients, which demonstrates strong project-execution capabilities. ICRA notes that DECO’s ongoing mining projects are spread across multiple locations which partially mitigate risks associated with revenue volatility due to unforeseen mine-specific production disruption like natural calamities, labour unrest and regulatory actions. The rating also reflects the company’s track record of reporting profitable operations across business cycles, along with its steadily improving capital structure and comfortable debt protection metrics. In FY2016, DECO was able to register a 24% year-on-year (YoY) growth in turnover, and a 75% YoY growth in net profit, supported by healthy order addition, along with a pick-up in execution momentum.

The rating is, however, tempered by the capital-intensive nature of DECO’s operations, leading to high capital charges, which can squeeze net margins in a scenario of a slowdown in execution. The rating is also constrained by the tender-based nature of the contract mining business, which limits scope for DECO’s margin improvement. In FY2016, DECO had made substantial investments in non-core businesses, which may yield sub-optimal returns, and adversely impact the company’s return on capital employed (RoCE). The rating further reflects the company’s exposure to high client concentration risks, with ~49% of the outstanding order value being contributed by Bharat Coking Coal Limited (BCCL). DECO also remains exposed to execution challenges due to regulatory hurdles associated with mining, as well as potential law and order problems in mining regions. Going forward, DECO’s ability to ensure

¹ For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

timely execution of outstanding orders within budgeted time and cost, while maintaining healthy collection efficiency remains key rating sensitivities.

Key rating drivers

Credit Strengths

- Established track record of the company in the contract-mining business
- Wide range of mining service delivery capabilities, supported by a large fleet of owned heavy earth moving machineries (HEMMs)
- Comfortable order book position, giving revenue visibility of over three years
- Strong client profile, largely mitigating counterparty credit risks, and ensures timely collection of receivables
- Operations spread across multiple locations partially mitigates risks associated with revenue volatility from unforeseen mine-specific production disruption
- Profitable operations reported across business cycles
- Steadily improving capital structure and comfortable debt-protection metrics

Credit Weakness

- Capital intensive nature of operations, leading to high capital charges
- Tender-based nature of contracts limits scope for margin improvement
- Substantial investments in non-core businesses in FY2016, which may yield sub-optimal returns, to adversely impact return on capital employed (RoCE)
- High client concentration risks, with ~49% of outstanding order value being contributed by Bharat Coking Coal Limited (BCCL); however, the company has a track record of contract renewals with existing clients, which demonstrates strong project-execution capabilities
- Exposure to execution challenges due to regulatory hurdles associated with mining as well as potential law-and-order problems in mining regions

Description of key rating drivers highlighted above:

DECO is promoted by Mr. Manoj Agarwalla and his son Mr. Harsh Agarwalla of Dhanbad. The company forayed into the contract mining business from 2003 and is involved in the mining of coal, iron ore, and chromite ore. DECO's range of services 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 350 heavy-earth moving vehicles and experienced personnel.

During FY2016 and FY2017, DECO has been able to add long-term contracts worth Rs. 1,725 crore with tenure ranging from 3-6 years. As on November 30, 2016, DECO had a closing order book position of Rs. 2,188 crore, which gives it revenue visibility for ~3.8 years, and remains a positive factor from the credit perspective.

DECO works with only a handful of clients, all having a strong financial profile. DECO has a long experience of working in BCCL's coal mines in and around Dhanbad, Jharkhand. At present, the company is working in six coal mines of BCCL, with the oldest being the 2-mtpa Kusunda mine, work for which started in October 2009. Apart from BCCL, DECO is also working in multiple iron ore and coal mines of Steel Authority of India Ltd. (SAIL), coal mines of Western Coalfields Ltd. (WCL), chromite ore mines of Odisha Mining Corporation, and coal and zinc ore mines of the Vedanta Group. DECO's strong client profile largely mitigates counterparty credit risks and ensures timely receipt of receivables. Moreover, ICRA derives comfort from the company's track record of contract renewals with existing clients, which demonstrates strong project-execution capabilities.



In FY2016, DECO has made incremental investments of Rs. 15.59 crore in multiple non-core businesses. In the near term, ICRA expects these investments to yield sub-optimal returns, which will adversely impact DECO's return on capital employed (RoCE).

In FY2016, DECO's turnover grew by 24.1% on a YoY basis. This increase has been due to higher execution momentum during the year for the Kankanee, Kumarijore, and Gopalichuk mines of BCCL. Additionally, in February 2016, DECO won the contract for BCCL's Phularitand project, and during the previous year ~Rs. 10.8 crore worth of order value was executed, which supported the overall revenue growth. Given the healthy order addition in the last one year, and with the Phularitand (Rs 456 crore order value) and Majri (Rs 214 crore order value) contracts gathering pace in FY2017, the execution momentum is expected to remain buoyant in the current year as well. However, against a revenue growth of 24.1% on a YoY basis, growth in OPBITDA was much lower at 6.0% YoY in FY2016. This led to the operating profit margin (OPM) declining to 13.7% in FY2016 against 16.0% in FY2015. Despite a decline in OPM, the company's PAT margin has improved from 2.75% in FY2015 to 3.87% in FY2016, supported by a rise in non-operating income during the previous year.

DECO's healthy accretion to reserve has led to an improving capital structure. In FY2016, gearing stood at 1.2 times, which improved from 2.8 times in FY2012. The company's interest coverage remained healthy at over 5.0 times in FY2016 and FY2015. Total Debt/OPBITDA and NCA/Total Debt has also remained healthy in FY2016 at 1.9 times and 44% respectively. However, given the lumpy repayments, debt service coverage ratio (DSCR) remained moderate at 1.5 times in FY2016. Going forward, ICRA expects DECO's debt service coverage ratio (DSCR) to remain range-bound between 1.4 to 1.9 times between FY2017 – FY2020.

Analytical approach: Not Applicable.

Links to applicable Criteria
[Rating Methodology for Mining Entities](#)

About the Company:

Dhansar Engineering Co. Private Limited is a Dhanbad-based leading contract miner from eastern India, with an experience of over a decade in the mining business. The company is engaged in mining of coal, iron ore, and chromite ore, and its range of services include site levelling and grading, drilling, removal of overburden, extraction of minerals, and its transportation to railway siding.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating		Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				February 2017	January 2017	-	-	-
1	Cash Credit	Long Term	56.00	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	-	-
2	Bank Guarantee	Long Term	106.59	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	-	-
3	Term Loans	Long Term	72.41	[ICRA]BBB+(Stable)	-	-	-	-
4	Letter of Credit	Short Term	(5.00)**	[ICRA]A2	-	-	-	-

**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
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	56.00	[ICRA]BBB+/Stable
Bank Guarantee	-	-	-	106.59	[ICRA]BBB+/Stable
Term Loans	-	-	Nov'18 – Jul'20	72.41	[ICRA]BBB+/Stable
Letter of Credit	-	-	-	(5.00)**	[ICRA]A2

***sublimit of bank guarantee limits*

Source: Company

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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.

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