DEE DEVELOPMENT ENGINEERS LIMITED

June 18, 2024

SMC Ranking

★ ½ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Engineering
Offer for sale (Shares)	4,582,000
Fresh Issue (Shares)	**16,009,852**
Net Offer to the Public	20,591,852
Issue Size (Rs. Cr.)	397-418
Price Band (Rs.)	193-203
Employee Discount	Rs 19 per share
Offer Date	19-Jun-24
Close Date	21-Jun-24
Face Value	10
Lot Size	73 Shares

Issue Composition

	In shares
Total Issue for Sale	20,591,852
QIB	10,295,926
NIB	3,088,778
Retail	7,207,148

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	100.00%
QIB	0.00%	0.00%
NIB	0.00%	0.00%
Retail	0.00%	0.00%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

Funding working capital requirements of the Company;

Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company; and

General corporate purposes

Book Running Lead Manager

- SBI Capital Markets Limited
- Equirus Capital Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Established in 1988, DEE Development Engineers Limited (DEE Piping) is a leading Indian engineering company specializing in process piping solutions. The company caters to industries like oil & gas, power (nuclear included), chemicals and various process industries. Its services encompass engineering, procurement and manufacturing of piping systems. DEE Piping manufactures and supplies a comprehensive range of piping products, including high-pressure systems, spools, bends, welded pipes, fittings, pressure vessels, industrial stacks, modular skids, and custom components like boiler superheater coils and de-superheaters. The company boasts a wide network of seven strategically located manufacturing facilities across India (Palwal, Haryana with three facilities; Anjar, Gujarat; Barmer, Rajasthan; and Numaligarh, Assam) and Thailand (Bangkok). DEE Piping recently ventured into a new business segment: design, engineering, fabrication, and manufacturing of pilot plants at its Palwal Facility III.

Strength

Market Leadership and Competitive Advantages: This engineering company specializes in process piping solutions for various industries, including oil & gas, power, chemicals, and more. The company offers engineering, procurement, and manufacturing services. Its leadership position stems from factors like long-term client relationships, domain expertise, and consistent product quality. This translates to advantages like competitive pricing, economies of scale, scalability, and a loyal customer base.

Dominant Player in Indian Process Piping: Dee Development Engineers ranks among the world's leading process pipe solution providers based on technical capabilities for complex projects across diverse industries (Source: D&B Report). It is also the largest player in India by installed capacity (Source: D&B Report). Its seven strategically located manufacturing facilities span over 436,967 square meters across India and Thailand. Notably, the Barmer facility caters specifically to HPCL Rajasthan Refinery requirements.

The table below sets forth the installed production capacity and the capacity utilization at each of our Manufacturing Facilities and its Anjar Heavy Fabrication Facility for the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021:

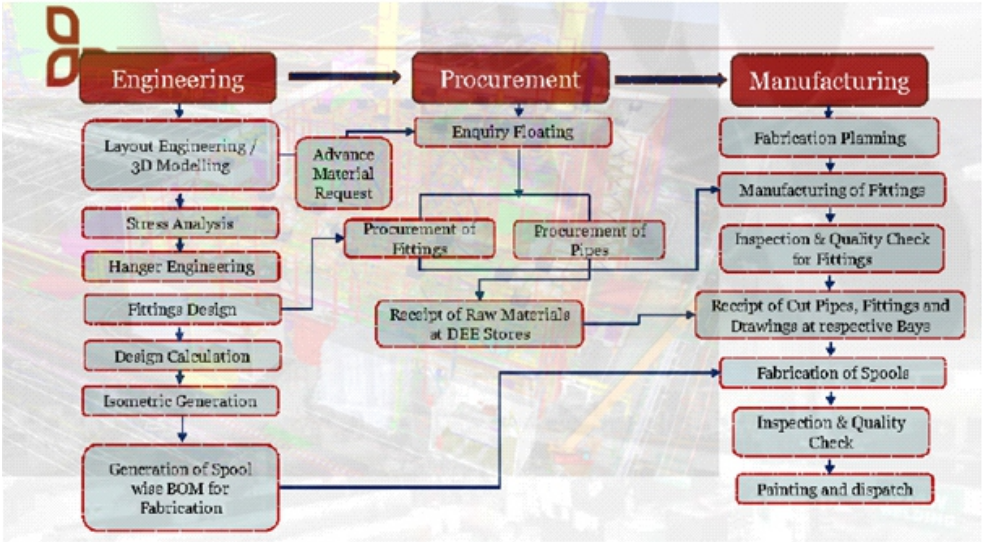
Facilities	Nine months ended December 31, 2023		Fiscal 2023		Fiscal 2022		Fiscal 2021	
	Installed Capacity <(in MT)	Capacity Utilization (in %)	Installed Capacity <(in MT)	Capacity Utilization (in %)	Installed Capacity (in MT)	Capacity Utilization (in %)	Installed Capacity (in MT)	Capacity Utilization (in %)
Palwal Facility I	6,750.00	5.45%	9,000.00	5.62 %	9,000.00	5.57 %	9,000.00	5.23 %
Palwal Facility II	2,250.00	50.43%	3,000.00	67.13 %	3,000.00	60.77 %	3,000.00	4243 %
Palwal Facilitv III	18,000.00	107 .00%	24,000.00	78.84 %	24,000.00	42.07 %	24,000.00	48.90 %
Barmer Facility	3,750.00	78.99%	5,000.00	55.04 %	5,000.00	31.29 %	N.A	N.A
Aniar Facility I	2,250.00	64.83%	3,000.00	41.60 %	N.A	N.A	N.A	N.A
Bangkok Facility	10,875.00	39.79%	14,500.00	39.34 %	14,500.00	23.84 %	14,500.00	19.28 %
Anjar Heavy Fabrication Facility	27,000.00	25.98%	36,000.00	26.63 %	36,000.00	21.19 %	36,000.00	21.52 %

Strong Customer Relationships and Order Book: Over 35 years, the company has built strong relationships with clients across various industries. Its ability to handle stringent client requirements fosters repeat business and attracts new clients in this high-barrier industry. Its customer base includes a healthy mix of domestic and international companies, including Fortune 500s and multinationals like JGC Corporation and Reliance Industries. Building trust and relationships is a key entry barrier in this industry. As of December 31, 2023, the company had an order book of Rs. 8,28.70 crore, which constituted 139.16% of its revenue from operations for Fiscal 2023. As of March 31, 2023,

March 31, 2022 and March 31, 2021 it had an order book of Rs. 5,63.35 crore, Rs. 434.57 crore and Rs. 335.68 crroe, respectively.

Comprehensive Solution Provider: Dee Development Engineers functions as an integrated manufacturing partner offering design-led solutions. The company provides design, engineering, manufacturing, and testing services, ensuring its clients' products meet rigorous reliability, safety, and performance standards. Its diversified product portfolio (piping spools, bends, fittings, pressure vessels, etc.) reduces dependence on any single product and caters to different business cycles across industries.

The flowchart below indicates how the Company is a comprehensive solutions provider:

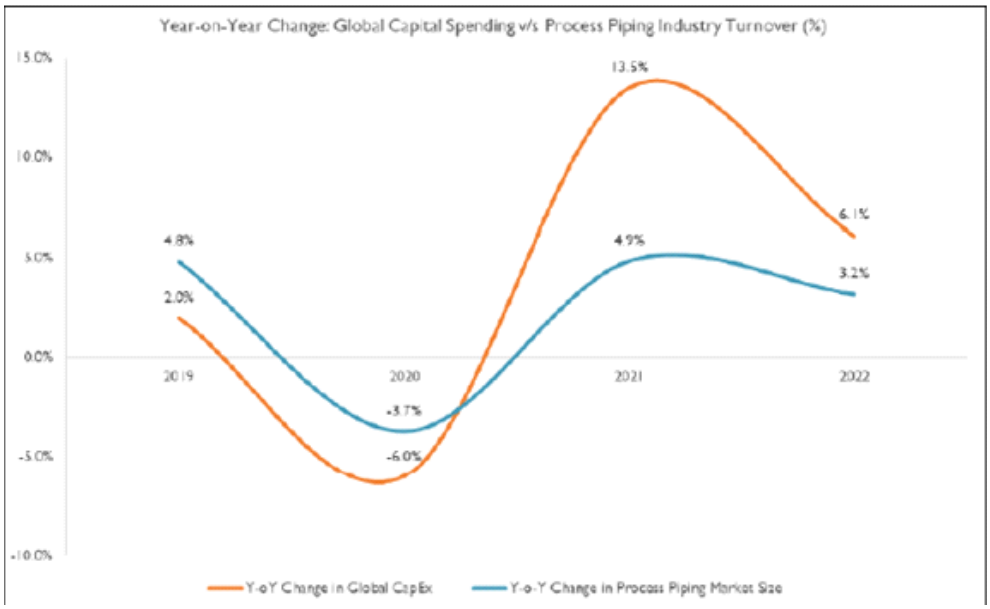


Its business footprint spans across geographies. As of December 31, 2023, it served customers across 27 countries. In the nine months ended December 31, 2023 and Fiscal 2023, Fiscal 2022 and Fiscal 2021 its revenue from operations outside India was Rs. 221.11 crore, Rs.268.59 crore , Rs. 168.15 crore and Rs.225.96 crore, respectively, which represented 40.53%, 45.10%, 36.48% and 45.63% of our revenue from operations, respectively.

Strong Focus on Automation and Process Excellence: The company's manufacturing facilities employ a well-balanced mix of automation and manual processes. The company utilizes advanced equipment like robotic welding systems, CNC heat treatment furnaces, and automated painting machines. This automation enhances productivity, cost control, and consistent product quality. Additionally, sophisticated infrastructure like in-house non-destructive examination facilities and advanced testing methods further ensure product excellence. The company made and expects to continue making capital expenditure in maintaining and growing its existing infrastructure, purchasing equipment, and developing and implementing new processes and technologies at its Manufacturing Facilities. It has been focusing on design capabilities for complex and critical piping projects which has enabled us to maintain its position in the oil and gas sector and power sector and is enabling its expansion in the chemicals and nuclear power sector. Its engineering expertise and technology driven processes has enabled it to deliver on projects in accordance with the designs, specifications and timelines of each project. As of March 31, 2024, it has a team of 748 personnel working on design, engineering and product development, including 176 productions cum welding engineers, 41 project engineers, 152 quality assurance and quality control engineers.

Strategy

Leveraging Market Leadership: Dee Development Engineers capitalizes on its leading position by offering a comprehensive suite of process piping solutions across industries like oil & gas, power, and chemicals. The company provides design, engineering, procurement, and manufacturing services, along with a wide range of piping products. This leadership allows it to offer competitive pricing and economies of scale, ensuring a strong foothold in the market.



Driving Efficiency through Automation: The Company prioritizes cost-effective automation solutions across its facilities to maintain its position as a comprehensive solution provider. The company continuously implements strategic measures like robotic welding and automated painting to enhance productivity and reduce rework in manufacturing. Its focus is on minimizing manual intervention throughout operations, including material handling, for optimized efficiency and cost savings. These investments in automation and digitization offer a competitive edge by lowering employee costs and improving overall efficiency. Notably, the company plans to further increase automation levels at its upcoming facilities in Anjar and Numaligarh.

Strategic Partnerships for Growth: Dee Development Engineers seeks to expand its operations through strategic alliances. The company believes selective partnerships with global OEMs will solidify its position as a comprehensive solution provider in specialized process piping. A recent collaboration agreement with a multinational oil & gas company exemplifies this approach. The agreement allows for a trial of pipe fabrication automation, with the potential for a future definitive agreement on pipework fabrication services. The company plans to pursue similar partnerships with other leading players in the industry to enhance engineering capabilities, shorten product cycles, and access new markets.

Focus on High-Margin Products and Modular Skids: The Company continuously evaluates its product mix to maximize profit margins. Its strategy involves prioritizing high-margin products while optimizing procurement and processes for overall profit growth. The company regularly analyzes its manufacturing portfolio and, if necessary, relocates production of specific items to optimize cost structures and maximize margin potential. Additionally, it aims to increase the contribution of modular skid components within its piping division, along with utilizing higher-grade materials and focusing on customer retention, to ensure sustained growth. Modular skids are a value-added offering that provides advanced specialized piping solutions for customers' processing structures.

New Business Vertical: Pilot Plants: Dee Development Engineers has recently expanded into pilot plants, offering design, engineering, fabrication, and manufacturing services. This new vertical holds promise, with an initial order book of Rs.10.61 crore as of December 31, 2023. Pilot plants are small-scale facilities used to evaluate production feasibility before full-scale implementation. The company leverages its engineering expertise to provide a one-stop solution for clients in various sectors, including oil & gas, and pharmaceuticals. This service encompasses the entire process, from conceptualization to commissioning, including 3D modeling, process simulation, design, fabrication, construction, and final installation.

Financial Strategy: Deleveraging and Flexibility: Dee Development Engineers, with its subsidiaries, currently has outstanding debt of Rs.771.05 crore. As part of its strategic initiatives, the company aims to deleverage by repaying or refinancing existing debt or through equity injection. This strategy will reduce interest costs, improve profitability, and enhance shareholder return on equity. Additionally, the company plans to maintain a flexible capital structure to support future operational

growth.

Risk factor

- The company faces high expectations from customers regarding quality and performance. It must consistently meet stringent requirements to maintain client satisfaction.
- The company heavily relies on its manufacturing facilities. This dependence introduces inherent risks associated with heavy machinery use, such as equipment failure or safety incidents.
- The company generates a significant portion of its revenue from a limited number of customers. This concentration exposes them to potential financial losses if a major client reduces business or terminates their relationship.
- The majority of the company's revenue comes from engineering services and supplies. Its financial health depends heavily on securing new contracts. Failure to do so could significantly impact its bottom line.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
ISGEC Heavy	6219.34	243.67	33.14	36.79	3.55	343.07	1	1219.25	8965.09
DEE Development Engineers Limited **	545.55	14.34	2.77	73.33	1.83	111.20	10	203.00	1401.69

***Peer companies financials are TTM based**
****DEE Development Engineers Limited is based on Estimated Annualised FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.203, the stock is priced at pre issue P/E of 56.32x on an Estimated Annualised FY24 EPS of Rs.3.60. Post issue, the stock is priced at a P/E of 73.33x on its EPS of Rs.2.77. Looking at the P/B ratio at Rs.203 pre issue, book value of Rs. 83.49 of P/Bvx 2.43x. Post issue, book value of Rs. 111.20 of P/Bvx 1.83x.

Considering the P/E valuation, on the lower end of the price band of Rs.193, the stock is priced at pre issue P/E of 53.55x on an Estimated Annualised FY24 EPS of Rs.3.60. Post issue, the stock is priced at a P/E of 69.71x on its EPS of Rs.2.77. Looking at the P/B ratio at Rs.193 pre issue, book value of Rs. 83.49 of P/Bvx 2.31x. Post issue, book value of Rs. 111.20 of P/Bvx 1.74x.

Industry Outlook

The global market for process piping solutions is expected to reach USD 54.5 billion by the end of this decade, growing by a CAGR of 4.8% during 2023-30 periods. The process piping solutions market in India managed to generate an annual turnover of approximately INR 25.4 thousand crores in FY 2023. By FY 2030, the annual turnover in Indian process piping solution market is expected to reach INR 38.4 thousand crores, increasing by a CAGR of nearly 6.1% between FY 2023 and FY 2030. The demand for process piping solution is directly tied to the capital expenditure pattern in industrial segment.

Outlook

DEE Development Engineers Limited (DEE) has over 35 years of experience providing custom-engineered piping solutions for various industries, including oil & gas, power (nuclear included), chemicals, and more. The company handles the entire process, from design and procurement to manufacturing. DEE leverages its strong brand reputation, strategically located manufacturing facilities, and engineering expertise to be a global leader in complex piping solutions. The company recently expanded into designing, engineering and building pilot plants at its Palwal Facility III. However, its business relies heavily on its manufacturing capabilities, which involve inherent risks due to the use of heavy machinery. Long-term investors may find this an attractive opportunity.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	19-June-24
BID/ISSUE CLOSES ON	21-June-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	24-June-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	25-June-24
Credit of Equity Shares to Demat Accounts of Allottees	25-June-24
Commencement of trading of the Equity Shares on the Stock Exchanges	26-June-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	545.55	595.50	460.92
Total expenditure	477.61	526.32	396.31
Operating Profit	**67.94**	**69.18**	**64.61**
OPM%	12.45	11.62	14.02
Other Income	12.31	18.83	9.92
Total Net Income	**80.25**	**88.00**	**74.53**
Interest	27.93	29.90	25.34
PBDT	**52.32**	**58.10**	**49.19**
Depreciation	33.29	37.73	35.90
Restated Profit before tax	**19.03**	**20.37**	**13.29**
Tax	4.69	7.40	5.10
PAT	**14.34**	**12.97**	**8.20**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	364.47	364.76	345.39
Capital work-in-progress	53.55	3.49	4.27
Goodwill	2.71	2.71	2.71
Other intangible assets	2.80	2.65	1.86
Right-of-use asset	22.22	10.41	4.34
Financial assets			
i. Investments	0.01	0.01	0.01
ii. Other financial assets	5.98	7.38	9.27
Deferred tax asset (net)	3.44	3.20	2.48
Other non-current assets	19.22	9.66	5.43
Total non-current assets	**474.39**	**404.27**	**375.76**
Current asset			
Inventories	421.43	289.18	242.03
Financial Assets			
Trade receivables	174.51	172.78	153.43
Cash and cash equivalents	1.41	1.82	0.34
Bank balances other than (ii) above	34.67	30.98	24.93
Other financial assets	7.59	8.10	0.70
Other current assets	57.02	59.14	48.21
Total current assets	**696.62**	**561.99**	**469.64**
Total Assets	**1171.01**	**966.26**	**845.40**
Non-current liabilities			
Borrowings	82.40	61.82	46.82
Lease liabilities	17.47	8.82	4.04
Deferred tax liabilities (net)	20.53	19.71	20.30
Provisions	0.14	0.15	0.14
Other non current liabilities	2.90	2.09	0.96
Total Non- Financial liabilities	**123.44**	**92.58**	**72.26**
Current liabilities			
Financial Liabilities			
Borrowings	324.74	290.80	238.54
Lease Liability	5.59	2.32	0.99
Trades Payable - MSME	11.61	4.34	4.50
Trades Payable - MESE	218.54	127.73	99.13
Other financial liabilities	8.98	8.16	4.13
Provisions	4.31	2.48	1.94
Other current liabilities	35.17	11.23	11.53
Liabilities for current tax (net)	0.58	2.96	0.41
Total Financial liabilities	**609.52**	**450.03**	**361.16**
Total	**732.97**	**542.62**	**433.42**
Net worth represented by:			
Equity Share Capital	53.04	10.61	10.61
Other equity	385.01	413.04	401.37
Net Worth	**438.05**	**423.64**	**411.98**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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