

## Issue Details

Listing	NSE & BSE
Open Date	28/9/2018
Close Date	3/10/2018
Price Band	183-185

## Capital Structure (In %)

Sh. pre-IPO	
Fresh issue	100
Offer for Sale	0

## Shareholding Pattern (%)

	Pre	Post
Promoters	100	74.68
Public	-	25.32
Total	100.0	100.0

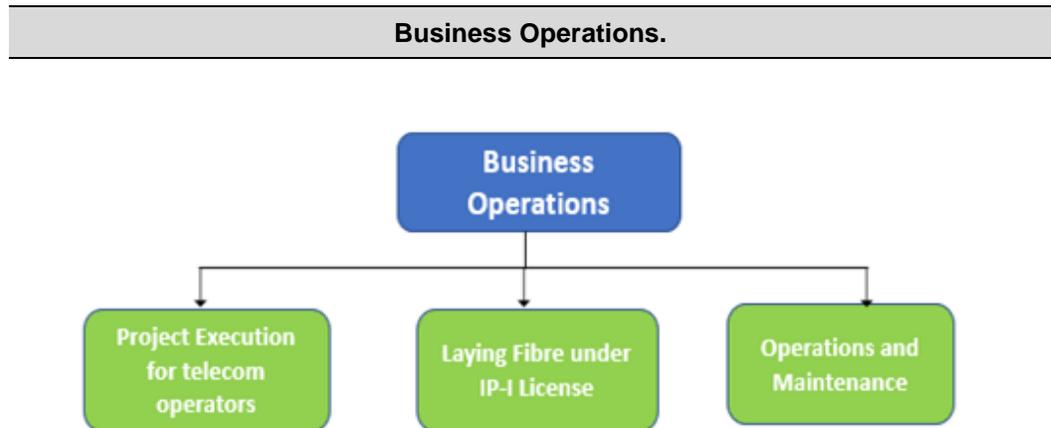
## Business Overview:

Incorporated in 2006, Dinesh Engineers Ltd. is a leading passive communication infrastructure provider in India. It is focused on providing passive communication infrastructure services, primarily to Telecom Operators (Telecos) and Internet Service providers (ISPs). Dinesh Engineers has spent more than a decade executing optical fibre laying work for almost every Telco in the country. The company is registered with the Department of Telecommunication (DOT) as an IP-1 category infrastructure provider, this registration grants it the right to build, operate and manage wired Networks, which can be used by Telecos and ISPs. They provide optical fibre laying-related turnkey project services to various telecos and broadband service providers across India.

Since the receipt of an IP-1 licence, the company has created its own optic fibre of around 7500 Kms, which runs across the states of Rajasthan, Gujarat, Maharashtra, Uttar Pradesh, Bihar, Karnataka, Andhra Pradesh and Telengana. Its wired network infrastructure solutions are used by many Telecom companies like BSNL, Airtel, Vodafone, Idea Cellular, Reliance Jio, Reliance Corporate IT Park and TCIL. Apart from laying the network under the vendors' projects or its own network, it is also engaged in operations and maintenance activities of fibre networks and preventing underground optic fibres from getting cut due to activities like road repairs, digging and expansion work by various authorities.

Dinesh Engineers Ltd. has grown manifold during the past decade, under the leadership and guidance of the Promoter, Chairman, Managing Director Mr. Dinesh Kollaiah Kargal. He has an overall experience of 27 years in the field of civil construction and Telecom infrastructure. During his career so far he has been instrumental in laying of around 35,000 kms of cable while undertaking and executing many challenging projects.

Dinesh Engineers has achieved total revenues of Rs. 302 crores, Rs. 170 crores and Rs. 123 crores in the fiscal years 2018, 2017, 2016, respectively. The Profit After Tax, as per the restated consolidated financial statements, for the fiscal years ended March 31, 2018, 2017, 2016 were Rs. 61 crores, Rs. 21 crores and Rs. 12 crores respectively.

**Business Operations:**

Source: Ventura Research, Company

**Project Execution for Telecom Operators (Vendor Projects)**

Project Execution for Telecom operators involves solely working for the Telecom operators as contractors. The Telecom companies, based on their requirement, notify the company about the area where they require the Fibre network. Once this area is notified, the telecom operators assign the projects and their requirements to the company. On receiving the project, Dinesh Engineers initiates the work of procuring the ROW permissions for the operators. After receiving the requisite permissions, they start executing the projects. The fibre is laid in the allowable ROW permission limits from the centre of the road and available land width. Once the fibre laying work is complete the same is first tested by the project team and then acceptance testing is done.

**Laying Fibre under IP-I License (IP-I)**

Under the Infrastructure providers Category I(IP-I) License the company can establish and maintain assets, such as Dark fibers, right of way and duct space for the purpose, on lease/rent/sale on IRU basis to the licenses of telecom services providers and vendors on mutually agreed terms and conditions. Under the IP-I license they have developed their own network of around 7500 kms during last 5 years. The company identifies strategic routes where the operators don't have their presence and build their network there. This network is then leased to telecom operators either by duct lease or by fibre lease.

**Operations & Maintenance(O&M)**

The company also undertakes operations and maintenance activities for telecom operators and of the leased fibre maintained under its IP-I License. Operation and maintenance activities involve deploying manpower and tools required for maintenance, such as splicing machines, rodometers, OTDR machines, etc. to monitor the route of the operator and preventing the underground optic fibre therein from getting damaged.

## **Key Investment Highlights.**

### **Established optic fibre network in India**

The company has created its own fibre optic network of around 7500 kms, which runs across Rajasthan, Gujarat, Maharashtra, Goa, Karnataka, Andhra Pradesh and Telangana. Apart from its own network, it has also undertaken vendor projects and developed a network of around 9500 Kms. This fibre network is currently being used by various companies, like telecom operators, cable TV companies, MSOs, ISPs, etc. With an increase in the number of telecom subscribers, internet users and widespread digitalization, there is an increasing need for fibre networks. With the recent advancement in the field of telecommunications, the telecom operators are more focused on taking the fibre network on lease rather maintaining their own network.

### **Strong project management and execution capabilities**

The company has executed many projects for telecom companies and gas companies. It has a strong ROW team, which liaises with the government and local authorities to get the projects executed with all legal permissions, without any local hindrances. Dinesh Engineers uses modern machineries like HDD (Horizontal Diagonal Drilling) and JCBs to get the projects executed in a timely manner and with high standards. The focus of the company is to leverage strong project management and execution capabilities to complete projects in a timely manner. The use of skilled labour and modern equipment enables it to control the cost of the project.

### **Efficient Business Model**

The growth is largely attributable to the efficient business model, which involves careful identification and assessment of projects with an emphasis on cost optimization. The core business of leasing the fibre and duct on IRU basis to telecom operators is a unique business model which forms a major portion of the company's revenue. The business model relies more on efficient liasoning, speed of execution, quality of work performed and maintenance of laid network. The project team, by using modern equipment and efficient labour and manpower, completes the project with superior quality and within the required timeframe.

### **Long standing customer relationship with strong repeat business:**

The quality and on-time execution of the projects has helped the company forge strong relationships with its major clients. They have been providing services to leading communications companies, which includes PSUs as well. Dinesh Engineers has a history of high client retention and derives a significant proportion of its revenues from repeat businesses built on successful engagements. In last three financial years, the company has generated more than 95% of its revenues from operations of its top 10 customers. The company has built long standing customer relationships which have helped in the better understanding of its clients' business needs.

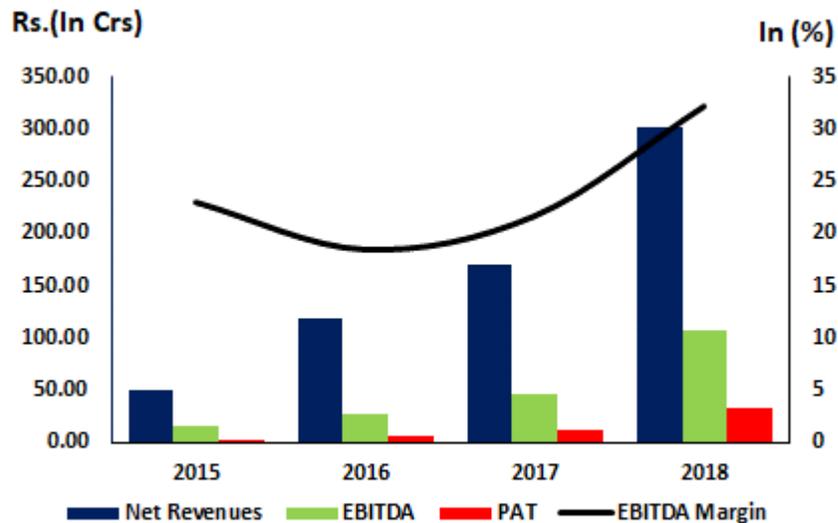
### Quality Certification:

The company believes in maintaining quality standards, which it adheres to. The execution process is closely monitored by project supervisors. After the completion of a project, a pre-acceptance testing of the entire project is done by the project team for self-righteousness and then the same is delivered to the client. In the case of IP-I execution, once the pre- acceptance testing is cleared, the project is then offered to the operations & maintenance team for final acceptance and testing.

### Healthy Financial performance:

The company's financial performance is healthy with its bottom-line growing at a CAGR of more than 100% between FY16 and FY18, while its top line has grown at a CAGR of more than 55% during the same years. The total revenue was Rs. 302.78 crores, Rs. 170 crores and Rs. 123 crores in the fiscal years 2018, 2017, 2016, respectively. The Profit After Tax, as per the restated consolidated financial statements for the fiscal years ended March 31, 2018, 2017 and 2016, were Rs. 61 crores , Rs. 21 crores and Rs. 12 crores, respectively. The company's margin ratios are quite attractive with the Operating Margin standing at 35% while the Net Profit Margin was 20% in FY18. The company has very low debt on its balance sheet, with the Debt to Equity ratio standing at merely 0.24 in FY18. Its cash flow condition is quite healthy as the company has consecutively posted positive cash flows from its operating activities since FY16.

#### Revenue, EBITDA and PAT



Source: Ventura Research, Company

## Issue Structure & Valuation

The Authorized share capital is of Rs. 40 Crore at the face value of Rs.10, with an aggregate of 40,000,000 equity shares. Issued, subscribed and paid-up capital before the issue is at an aggregate amount of Rs.29.5 Cr of 2,95,00,000 equity shares. The proposed Dinesh Engineers Ltd. issue size is of Rs. 185 Cr. An aggregate of up to 10,000,000 equity shares by way of Fresh issue with 25.32% of the post offer paid-up equity share capital. The price band for the issue is Rs. 183 per share (lower price band) to Rs 185 per share (upper price band).

Category	No. of shares Offered	% of Shares Offered
QIB	5000000	50%
Non institutional Bidders	1500000	15%
Retail	3500000	35%
<b>Total</b>	<b>10000000</b>	<b>100%</b>

The valuation on a trailing basis works out to 5.05x FY18 P/B. Hence, we recommend Subscribe rating on the stock.

**SWOT ANALYSIS**

<p><b>STRENGTH</b></p> <ul style="list-style-type: none"> <li>➤ Established fibre network of around 7500 km.</li> <li>➤ Strong client list with repeat business.</li> <li>➤ Strong Project Management and execution capabilities.</li> <li>➤ The core business of leasing the fibre and duct on IRU basis to telecom operators is a unique business model which forms a major portion of company's revenue.</li> </ul>	<p><b>WEAKNESS</b></p> <ul style="list-style-type: none"> <li>➤ The Company's business depends on various third parties, including contractors and independent service providers on which they have no control.</li> <li>➤ Delays in acquisition of rights and permission from government and local authorities may adversely affect the timely performance of the contracts which lead to disputes and losses.</li> </ul>
<p><b>OPPORTUNITY</b></p> <ul style="list-style-type: none"> <li>➤ The government has proposed a subsidy of Rs.3,600 crore to private Telcos such as Bharti Airtel, Vodafone India, Idea Cellular and Reliance Jio through viability gap funding, for setting up Wi-Fi in rural areas.</li> <li>➤ Empowering Digitalization and providing services mainly to the Telecom Operators and Internet Service Providers.</li> <li>➤ Telecom Operators are expanding their network across the Nation and giving a boost to this industry.</li> </ul>	<p><b>THREAT</b></p> <ul style="list-style-type: none"> <li>➤ The Company is a party to certain legal proceedings and any adverse decision in such proceedings may have a material adverse effect on the business operations.</li> <li>➤ A significant portion of revenue is generated from a limited number of large customers. If the company is unable to maintain relationships with such customers, its financial condition will be adversely affected.</li> <li>➤ Any delay in collection of dues and receivables from customers may have an adverse effect on operations and cash flows.</li> </ul>

**Profit & Loss (Rs. in crore)**

Particulars	FY16	FY17	FY18
<b>Revenue</b>			
Revenue from operations	<b>122.3</b>	<b>169.2</b>	<b>302.2</b>
<b>Expenses</b>			
Operational expenses	74.9	103.6	154.0
cost of raw materials consumed	9.4	7.3	38.8
Changes in Inventory	2.6	0.0	-17.4
Employee benefit expenses	3.8	6.9	8.6
Administrative and other expenses	3.7	5.7	10.1
<b>Total expenses</b>	<b>94.4</b>	<b>123.5</b>	<b>194.2</b>
<b>EBITDA</b>	<b>27.9</b>	<b>45.7</b>	<b>108.0</b>
Other Income	0.3	0.7	0.6
<b>EBITDA (Incl. OI)</b>	<b>28.1</b>	<b>46.4</b>	<b>108.6</b>
Depreciation & Amortisation	6.2	9.7	11.3
<b>EBIT</b>	<b>22.0</b>	<b>36.7</b>	<b>97.3</b>
Finance Cost	2.1	2.8	2.0
Exceptional Income / Expenses	0.0	0.0	0.1
<b>PBT</b>	<b>19.9</b>	<b>33.9</b>	<b>95.4</b>
Provision for Tax	6.8	11.8	33.4
<b>Net Income</b>	<b>13.1</b>	<b>22.1</b>	<b>62.0</b>

*Source: Ventura Research, Company*

## Balance sheet (In Rs. Crs)

Particulars	FY16	FY17	FY18
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholder's Funds</b>			
Share Capital	0.3	0.3	29.5
Other capital	28.7	45.9	78.4
<b>Total Equity</b>	<b>29.0</b>	<b>46.2</b>	<b>107.9</b>
<b>Minority Interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Non Current Liabilities</b>			
Borrowings	3.6	9.6	9.4
Provisions	0.2	0.4	0.3
Deferred tax liabilities	0.5	0.6	1.0
Other non-current liabilities	46.4	78.7	104.7
<b>Total Non-current Liabilities</b>	<b>50.7</b>	<b>89.3</b>	<b>115.4</b>
<b>Current Liabilities</b>			
Borrowings	7.8	0.0	16.7
Trade Payables	37.6	43.7	136.7
Other Fianancial liabilities	7.5	5.4	4.1
Other Current liabilities	6.8	12.8	16.3
Provisions	0.0	0.0	0.1
Current tax Liabilities	0.0	0.6	20.3
<b>Total Liabilities</b>	<b>59.7</b>	<b>62.5</b>	<b>194.3</b>
<b>Total equity and Liabilities</b>	<b>139.7</b>	<b>198.0</b>	<b>417.9</b>
<b>ASSETS</b>			
Property, Plant & Equipment	50.0	67.8	69.0
Capital work in progress	6.5	3.6	46.2
Intangible assets	0.1	0.0	0.4
Trade Recievables	6.9	9.4	6.0
Investments	0.0	0.0	0.1
Other financial assets	11.6	16.4	29.3
Other non-current assets	11.6	6.0	4.8
<b>Total Non-current Assets</b>	<b>86.6</b>	<b>103.1</b>	<b>155.8</b>
<b>Current Assets</b>			
Inventories	0.0	0.0	17.5
Trade Recievables	23.8	47.6	82.1
Cash and cash equivalents	0.5	13.6	0.6
Bank Balances	0.4	1.2	0.1
Loans	0.0	0.0	0.0
Other current financial assets	24.3	28.2	150.4
Other current assets	3.9	4.3	11.4
<b>Total Current Assets</b>	<b>53.0</b>	<b>95.0</b>	<b>262.1</b>
<b>Total Assets</b>	<b>139.7</b>	<b>198.0</b>	<b>417.9</b>

Source: Ventura Research, Company

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