

### Subscribe for Long Term

Issue Details	
Price Band (Rs)	183-185
Face Value (Rs)	10/-
Issue Size (Rs)	185 Cr
Issue Type	Book Building
Minimum lot	80 Shares
Issue Opens	September 28, 2018
Issue Closes	October 03, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 09,2018
Unblocking of Funds	October 10,2018
Credit of shares to Demat Account	October 10,2018
Listing on exchange	October 11,2018

Other Detail	
Book Running Lead Managers	HEM Securities Ltd
Registrar	Link Intime India Pvt Ltd

**"Company to list on T2T category"**

## Dinesh Engineers Ltd.

### Company Background

Incorporated in 2006, Dinesh Engineers Ltd (DEL) is a Mumbai based company engaged in the business of providing passive communications infrastructure service mainly to the telecom operators and Internet Service Providers (ISP). DEL has been licensed by the Department of Telecommunication (DoT) with the Infrastructure provider (IP) - I License, which allows the company to establish and maintain wired network, Duct Space to grant on lease or sale on Indefeasible Right of Use (IRU) basis to the licensees of telecom operator and ISPs. Based on past records and experience in laying fiber for telecom operators, Mahanagar Gas Ltd entrusted them with the laying of its gas pipelines under the city of Mumbai.

DEL has created its own optic fiber network of around 7500kms across Rajasthan, Maharashtra, Goa, Gujarat, Karnataka, Andhra Pradesh, and Telangana. The wired network infrastructure solutions of the company are used by many telecom companies such as Bharti Airtel, BSNL, Reliance corporate IT park, Reliance Jio, Vodafone Idea, Tata Communication, Tata Teleservices, and Gas companies such as Mahanagar Gas Ltd.

### Issue Details

The company through the IPO offers 1,00,00,000 equity shares of face value of Rs.10 each and amounting to Rs.185cr on the upper price band. Issue comprises fresh issue of equity share only. Issue will dilute 25.3% of post issue paid-up capital.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.183)	Upper Band (Rs.185)
QIB	50%	50,00,000	92	92
Non Institutional Investors	15%	15,00,000	27	28
Retail Individual	35%	35,00,000	64	65
<b>Total</b>	<b>100%</b>	<b>1,00,00,000</b>	<b>183</b>	<b>185</b>

Source: Company RHP, ACMIIL

### Objective of the issue

The company proposes to utilize the fresh issue proceeds towards funding the following:

Sr No	Particulars	Amount (Rs Crs)
1	Expansion of business by setting up of further OFC network under IP-I License	156
2	To fund expenditure towards general corporate purpose & meeting public issue expense	29
	<b>Total net proceeds to be utilized</b>	<b>185</b>

Source: Company RHP, ACMIIL

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## Outlook and Valuations

DEL provides passive communication infrastructure service to telecom operator as well as internet service provider. The company has strong presence in West and South India with superior client base. The management expects a rise in business opportunity on back of increasing penetration of 4G, 5G, and Fibre-To-The-Home (FTTH) that will, in turn, impact the use of OFC network, going ahead. We believe robust order book, increasing government spending, and superior financial performance and return ratio make DEL a good long-term play on the increasing data story. At the upper price band, the company's stock trades at 8.83x its FY18 EPS of Rs 20.95/-. **We recommend to SUBSCRIBE the issue from a long-term perspective.**

## Business Overview

DEL provides support services to telecom vendors such as project management for laying of duct and OFCs, construction of basic transmission and telecom utilities, dark fibre leasing, and OFC network construction.

Company's business operations can be briefly classified under the below mentioned three heads:

### 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 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, they initiate the work of procuring the Right of Way (ROW) permissions for the operators. On receiving the permission, company start executing the projects. The fibre is laid in the allowable ROW limits from the centre of the road and available land width. The depth of the trench and the protection material is based on the specifications given by the respective telecom operator. The entire activity is done with the assistance of labour and/ or machinery. The activity is done simultaneously on multiple routes across the areas. Once the fibre laying is complete the same is first tested by the project team and then acceptance testing is done by the operators (Acceptance Testing Team) for whom the project is executed. After such testing the network along with ROW documents are handed over to the Telecom operator.

### Laying fiber under IP-1 License (IP-1)

Under the Infrastructure Providers Category I (IP-1) Licence, company can establish and maintain the assets such as Dark Fibres, Right of Way and Duct Space for the purpose to grant on lease/rent/sale on IRU basis to the licensees of Telecom Services providers and other vendors on mutually agreed terms and conditions. Under the IP-1 License, company has developed their own network of around 7500kms during the last 5 years. Company identifies such 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. In some cases where the telecom operators are unable to build network by their own on particular routes due to constraints like: High ROW Challenges, overall project cost viability, Local issues etc they ask company to execute the route

### Operations & Maintenance (O&M)

Company also undertakes the operations & maintenance activity for the telecom operators and of the leased fiber maintained under IP-1 License. Operation & Maintenance involves deploying manpower and tools required for maintenance such as splicing machine, rodometre, OTDR machine etc. to monitor the route of the operator and preventing the underground optic fiber therein from getting damaged due to activities like road repairs, digging and expansion works by various authorities. For the fibre laid by the company either as vendor project or on own account under IP-1 license, they are preferred for the operation and maintenance of the same as their team is aware of the exact position of the fibre laid. . The key focus under the operation and maintenance activity is the early identification of the faults and undertake the repair activities in a timely manner in order to minimize the network downtime.

As of July 31, 2018, company has laid fiber of around 17000 Kms for their telecom vendors which includes fibre laid under Vendor Projects and own network running across 10 states in India. Further, their order book, as of any particular date, consists of the unexecuted portions of their outstanding orders, that is, the total contract value of the existing contracts secured by them, as reduced by the value of work executed and billed until the date of such order book. Company's total Order Book was approximately Rs 420cr, as at April 01, 2018.

## Investment Rationale

### Established Optic fiber network in India

Over the past years, company has created their own fibre optic network of around 7500 Kms which run across Maharashtra, Goa, Telangana, Rajasthan and Karnataka. Apart from their own network, they have also undertaken Vendor Projects and developed a Network of around 7500 Kms for their customers. This fibre network is currently being used by various companies such as companies like telecom operators, cable TV companies, MSOs, ISPs etc. Even after building a network running across 10 states, they are continuously expanding their fibre and duct network so as to be able to serve more customer needs and leverage economies of scale. With the increase in the number of the Telecom subscribers, internet users and widespread digitalization there has been an increasing need of fibre network. With the recent advancement in the field of Telecommunication, the telecom operators are more focused on taking the fibre network on lease rather than developing and maintain their own network & thus provide a business opportunity for their company.

### **Long standing customer relationships with strong repeat business**

Company's quality and on-time execution have helped them to forge strong relationships with their major clients. They are providing services to the leading telecommunications company which includes PSUs Companies as well. Further, they have a history of high client retention and derive a significant proportion of their revenues from repeat business built on their successful execution of prior engagements. In last three financial years, company has generated more than 95% of their revenue from operations from their top 10 customers, among which most were there existing clients. Moreover, company has build long standing customer relationships which have helped them better understand their clients' business needs and enabled them to provide effective solutions to meet these needs.

### **Efficient Business Model**

Company's growth is largely attributable to their efficient business model which involves careful identification and assessment of the project, with emphasis on cost optimization which is a result of executing their projects with careful planning and strategy. Their 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 their revenue i.e. around 88-90%. Further, company's r business model rely more on their efficient liaising, speed of execution, quality of work performed and maintenance of the laid network. They have their own ROW team across the states which help them as well as the telecom operators to get the required permissions in a simpler and faster way. The Current business model has facilitated them in maximizing their efficiency and increasing their profit margins. Additionally, use of the skilled manpower and modern equipment ensures better control over execution and timely completion of projects. Their experienced engineering and management teams are responsible for ensuring that they execute the project in a systematic and cost effective manner by monitoring operational costs, administrative costs and finance costs at every stage of the project cycle and applying checks and controls to avoid any cost and time overruns.

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

ver the last five years, company has executed many projects for the telecom companies and gas companies. They have a strong ROW team which liaison with the government and local authorities to get the projects executed with all the required permission and without any hindrances from the locals. They use modern machineries like HDD (Horizontal Diagonal drilling) and JCBs to the get the projects executed in timely manner and with the high standards. Company get the projects executed with the contractor's who are working with them for early execution. They have their own list of sub- contractor in various states that help them to get the work executed in those respective areas. Company's focus is to leverage their strong project management and execution capabilities in order to complete their projects in a timely manner while maintaining high quality of work. Also, company enjoy accreditations such as the ISO 9001, 14001 & OHSAS 18001 certification.

### **Experienced Workforce**

Company believe that they benefit from the vision, strategic guidance, experience, skills and relationships of several key members of their management team, including Promoter and Managing Director Mr. Dinesh Kollaiah Kargal, who has an overall experience of 27 years in the field of civil construction and telecom infrastructure business. His experience has been instrumental in overall growth of the company in last many years. Their promoter and managing director has an experience of building and optic fibre network of around 35000 Kms during his career. They also believe that their employees have been an important factor in their success as the quality of work is dependent on them. With the continuing involvement of the core members of their management team and key executives, company believes that they are well positioned to continue to tap growth opportunities across the business in the future.

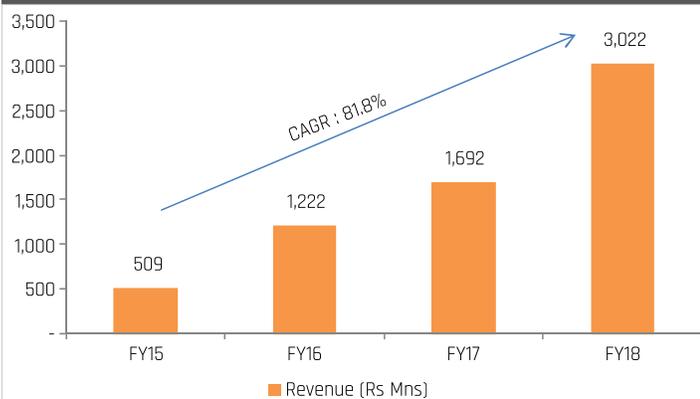
### **Superior financial track record**

In last few years i.e. FY15-FY18, company's net sales & profitability has grown at a CAGR of 81% & 107% respectively. Further during the same period, company's operating margin has improved from 30.3% in FY15 to 35.8% in FY18. Also, Company's aggregate order book as on April 30, 2018 stands at approximately Rs 420cr. Company believes that their track record of consistent growth in revenue and profitability is one of their key competitive strengths. Further, company has strong balance sheet with leverage ratio stands at 0.2x as on FY18. In addition, company has delivered superior return ratio with ROE improved from 44.5% in FY16 to 57.2% in FY18. Moreover, company is expanding its business activities by setting up its own dedicated optical fiber cable (OFC) network of approximately 5740km in states of Maharashtra, Rajasthan, Madhya Pradesh, and Andhra Pradesh. We believe this expansion would further increase its footprint & which can be later leased out to telecom operator. Currently, company's existing own leased business model operates at 32% capacity utilization & this provide huge upside to this business. Also diversification into gas pipeline business would provide boost to overall business operations.

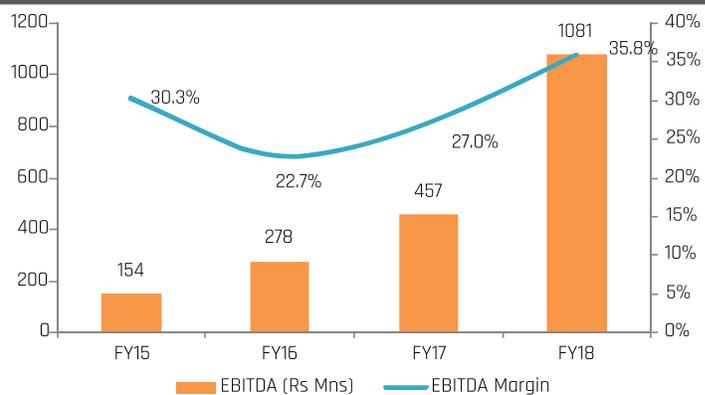
### **Risks and Concern**

- Company's operation is subject to significant fluctuation and adverse weather condition.
- Company face stiff competition & any inability to compete effectively may impact business operations.
- Company depends on single sector i.e. telecom & hence any adverse impact on sector or spending may impact business operations.

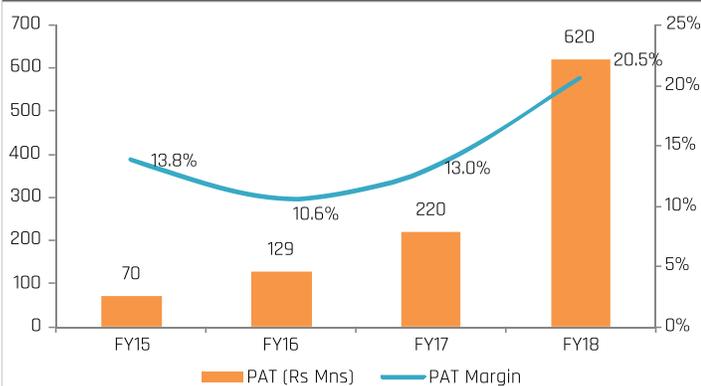
### Revenue growth



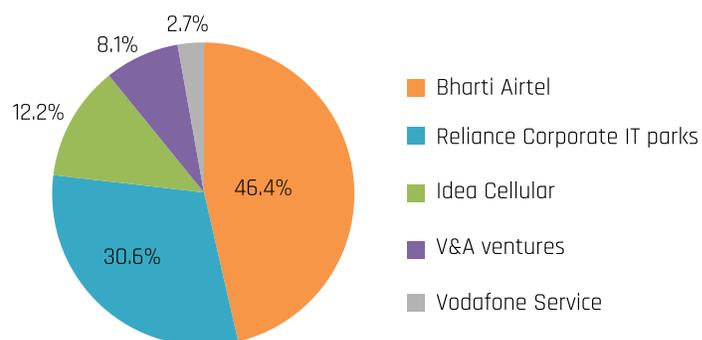
### EBITDA



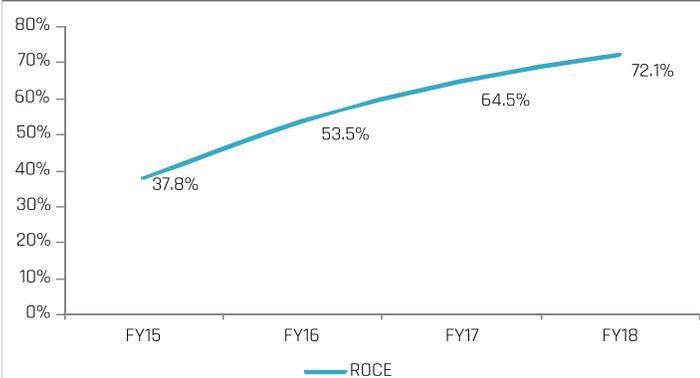
### PAT



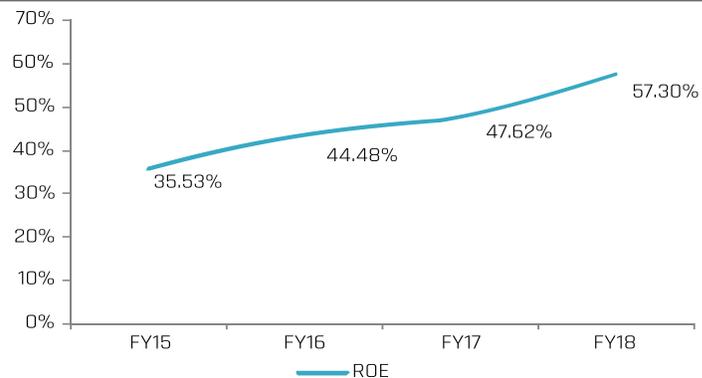
### Revenue Contribution - FY18 (Top 5 Customers)



### ROCE



### ROE



Source: Company RHP, ACMIIL

## Financials

### Income statement

Particulars ( Rs Mns)	FY15	FY16	FY17	FY18
Revenue from operations	509	1,222	1,692	3,022
Less: Operating exp				
Operational expenses	284	749	1,036	1,541
Purchase of stock in trade	31	93	73	388
Changes in inventory	-	27	-	-175
Employee Benefit Expenses	24	38	69	85
Administrative & other expenses	16	37	57	101
Total Expenses	355	944	1,235	1,941
EBITDA	154	278	457	1,081
EBITDA %	30.3%	22.7%	27.0%	35.8%
Less : Dep & Amortization	41	62	97	113
EBIT	113	216	360	968
Less : Finance cost	16	21	28	20
Add: other income	3	2	7	6
PBT	100	197	339	954
Less : Tax	30	68	119	334
<b>Net Profit</b>	<b>70</b>	<b>129</b>	<b>220</b>	<b>620</b>
PAT %	13.8%	10.6%	13.0%	20.5%
EPS (Rs)	2.4	4.37	7.45	20.95

Source: Company RHP, ACMIIL

## Balance sheet

Particulars (Rs Mns)	FY15	FY16	FY17	FY18
Share Capital	3	3	3	295
Reserves	194	287	459	785
Non Controlling interest	-	-	-	2
Total Shareholders Fund	197	290	462	1,082
Non Current Liabilities				
Long term borrowings	32	36	96	94
Deferred tax liabilities	3	5	6	10
Other long term liabilities	307	465	788	1,047
Long term provisions	2	2	4	3
Total Non Current Liabilities	344	508	894	1,154
Current Liabilities				
Short term borrowings	70	78	-	167
Trade Payables	114	376	437	1,367
Other financial liabilities	-	75	54	41
Other Current Liabilities	84	69	128	163
Short Term Provision & liabilities	-	-	6	205
Total Current Liabilities	268	598	625	1,943
<b>Total Liabilities</b>	<b>809</b>	<b>1,396</b>	<b>1,981</b>	<b>4,179</b>
Assets				
Tangible assets	332	500	678	690
Intangible assets	0	1	0	4
CWIP	25	65	36	462
Investment	0	0	0	1
trade receivables	0	69	94	60
Other financial assets	0	116	164	293
Long term loans & advances	91	0	0	0
Other financial current assets	0	116	60	48
Total Non Current Assets	448	867	1032	1558
Current Asset				
Inventories	27	0	0	175
Trade Receivables	238	238	476	821
Cash & bank bal	59	9	148	7
Other financial assets	0	243	282	1504
Short term loan & advance	37	0	0	0
Other current assets	0	39	43	114
Total Current Asset	361	529	949	2621
<b>Total Asset</b>	<b>809</b>	<b>1,396</b>	<b>1,981</b>	<b>4,179</b>

Source: Company RHP, ACMIIL

# Asit C. Mehta

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