



## Company Overview

DEE Development Engineering Ltd. is an engineering company specializing in process piping solutions for oil and gas, power, chemicals, and others. With over three and a half decades of experience, the company provides high-pressure piping systems, piping spools, industrial fittings, and other products. The company is a leading global provider of process pipe solutions for complex industrial requirements. It is currently India's largest player in process piping solutions in terms of installed capacity. The company offers specialized process piping solutions, including engineering and pre-fabrication services. The company's expertise covers the engineering of process/power piping systems, pre-fabrication activities such as cutting, beveling, welding, radiography, post-weld heat treatment, hydro-testing, pickling, passivation, grit blasting, painting, and working with complex metals. The company has seven manufacturing facilities located strategically across five locations in India and one in Thailand. The cumulative installed capacity as of FY23 stood at 94,500 MTPA. The company has initiated operations at the New Anjar Facility I, with an installed capacity of 3,000 MTPA. It plans to set up New Anjar Facility II with a proposed capacity of 9,000 MTPA, thus increasing the total capacity from 3,000 MTPA to 15,000 MTPA. The company has also built long-term relationships with clients in various industries and continues to attract new business due to the company's ability to meet customer requirements. The customer base includes domestic and overseas clients, including Fortune 500 companies in India and multinational corporations.

## Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding working capital requirements of the company;
- ⇒ General corporate purposes.

## Investment Rationale

### Leading industry player with high entry barriers provide ample growth opportunities

DEE Development Engineering Ltd. is an engineering company providing specialized process piping solutions for industries such as oil and gas, power, process industries and chemicals through engineering, procurement and manufacturing services. The company leadership position can be attributed to factors such as long-standing relationships with certain global customers, business experience, domain expertise and consistent quality of products. The company's leadership position offers competitive advantages such as product pricing, reduced costs due to economies of scale, ability to scale business, customer loyalty and higher client base. As per the D&B Report, India's process piping solutions industry has high entry barriers due to the requirement of skilled labour with complex manufacturing technology, high capital investment and robust design and execution capability. Given the nature of the application of products and engineering processes to critical industries such as oil and gas and power (including nuclear), their products and engineering processes are subject to and measured against high-quality standards and stringent specifications of customers. Over the years, the company has built strong relationships with many customers, owing to its technical capabilities, track record, timely deliveries, and good and consistent quality products and engineering capabilities. Additionally, the level of technical skill and expertise essential for developing in-house engineering processes and handling complex metals require a significant amount of training that can only be achieved over time and involves high initial investment as well as a recurring cost, thereby creating further entry barrier for new entrants.

### Long-standing customer relationships to aid sustained growth ahead

DEE Development Engineering Ltd. has 35 years of business operations and established long-term customer relationship across industries. The company believes that the ability to address the various and stringent client requirements over long periods enable it to obtain additional business from existing clients and new clients in an industry marked by high entry barriers. They have a balanced mix of domestic and overseas customers, including certain Fortune 500 companies in India and various multinational corporations. The customer relationships are led primarily by the ability to develop processes, meet stringent quality and technical specifications and manufacture customers' products in a timely and cost-effective manner. As a result, they have a history of high customer retention and have been manufacturing products for specific customers for over a decade. The company believes that such long-term association with customers offers significant competitive advantages such as revenue visibility, industry goodwill, and a deep understanding of customers' requirements, which are a testament to the quality of products and services. These enduring customer relationships have

## Issue Details

Offer Period	19 <sup>th</sup> June, 2024 - 21 <sup>st</sup> June, 2024
Price Band	Rs. 193 to Rs. 203
Bid Lot	73
Listing	BSE & NSE
Issue Size (no. of shares in mn)	20.59
Issue Size (Rs. in bn)	4.18
Face Value (Rs.)	10

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	SBI Capital Markets Ltd., Equirus Capital Private Ltd.
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Registrar	Link Intime India Private Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100.0%	70.2%
Public	0.0%	29.8%
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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# DEE Development Engineers Ltd.

helped them expand product offerings and geographic reach. The company's long-term relationships and ongoing active engagements with customers also allow them to plan capital expenditure to enhance the ability to benefit from increasing economies of scale, thereby ensuring a competitive cost structure to achieve sustainable growth and profitability.

## Valuation

DEE Development Engineering Ltd. has evolved as one of the key players in process piping solutions in India w.r.t. installed capacity, with a strong focus on automation and process excellence to drive operational efficiencies and offerings to its customers. The company is increasing its focus on high-margin products with additional contributions from modular skids and usage of high-grade materials, forging technology tie-ups with select global OEMs to derive consistent order flow to become a preferred partner for its clients for the next few years. On the industrial front, the Indian pipe process industry has a decent growth outlook and is expected to grow at a CAGR of 6.1% between FY23 and FY30, supported by oil and gas, chemicals/petrochemicals, ethanol, and biomass, and power sectors. The company's revenue has grown at a CAGR of 10% between FY21-23. The company has initiated the capacity expansion plans mentioned above, which will help it to improve its financial performance in the future. Further, the company is deleveraging its balance sheet by reducing debt. As we advance, the company's financial performance is likely to be driven by its robust balance sheet, long-standing customer relationships, capacity expansion, higher entry barriers, and strong management team holding impressive backgrounds. **The issue is valued at a P/E of 56.4x on the upper price band based on FY24 earnings, which we feel is fairly valued given the strong growth prospectus and stickiness of customer. We, therefore, recommend a SUBSCRIBE rating for the issue.**

## Key Risks

- ⇒ The company's performance is dependent upon the smooth functioning of manufacturing facilities. Any interruptions in operations, such as shutdowns, strikes, or disruptions in production, could affect the company's business and financial operations.
- ⇒ Failure to meet high-quality standards and performance requirements may result in order cancellations, product recalls, financial penalties, and damages to the company's reputation and financial stability.
- ⇒ Any downturn in the oil and gas, power (including nuclear), process industries, or chemical sectors would adversely impact revenue from operations, cash flows, and financial performance.
- ⇒ The company relies heavily on some customers for revenue. Most customers have short-term contracts. If any of these customers choose not to buy products from the company or end their contracts, it could harm the company's business and finances.

# DEE Development Engineers Ltd.

## Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>Revenue</b>				
Revenue from Operations	4,952	4,609	5,955	5,456
<b>Total Revenue</b>	<b>4,952</b>	<b>4,609</b>	<b>5,955</b>	<b>5,456</b>
<b>Expenses</b>				
Cost of raw materials consumed	1,985	1,949	2,261	2,253
Purchase of stock in trade	10	11	29	0
Changes in inventory	370	-242	-388	-492
Employee benefit expenses	740	793	1,109	1,032
Other expenses	1,311	1,452	2,252	1,983
<b>Total Operating Expenses</b>	<b>4,415</b>	<b>3,963</b>	<b>5,263</b>	<b>4,776</b>
<b>EBITDA</b>	<b>537</b>	<b>646</b>	<b>692</b>	<b>679</b>
Depreciation and Amortization expenses	355	359	377	333
Other income	178	99	188	123
<b>EBIT</b>	<b>360</b>	<b>386</b>	<b>503</b>	<b>470</b>
Finance costs	271	253	299	279
Exceptional Item				
<b>PBT</b>	<b>88</b>	<b>133</b>	<b>204</b>	<b>190</b>
Total tax	-53	51	74	47
<b>PAT</b>	<b>142</b>	<b>82</b>	<b>130</b>	<b>143</b>
<b>Diluted EPS</b>	<b>2.4</b>	<b>1.5</b>	<b>2.5</b>	<b>2.7</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Cash Flow from operating activities	955	671	139	697
Cash flow from investing activities	-68	-221	-520	-948
Cash flow from financing activities	-876	-497	395	247
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12</b>	<b>-47</b>	<b>15</b>	<b>-4</b>
Cash and cash equivalents at the beginning of the period	39	51	3	18
<b>Cash and cash equivalents at the end of the period</b>	<b>51</b>	<b>3</b>	<b>18</b>	<b>14</b>

Source: RHP, BP Equities Research

# DEE Development Engineers Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>Equity and Liabilities</b>				
Equity Share Capital	157	106	106	530
Other Equity	4,386	4,014	4,131	3,850
<b>Total Equity</b>	<b>4,543</b>	<b>4,120</b>	<b>4,237</b>	<b>4,380</b>
<b>Non-Current Liabilities</b>				
Financial Liabilities				
(i) Borrowings	513	468	618	824
(ii) Lease Liabilities	41	40	88	175
Provisions	10	1	1	1
Other non-current liabilities	0	0	0	0
Deferred tax liabilities (net)	212	203	197	205
Other non-current liabilities	9	10	21	29
<b>Current Liabilities</b>				
Financial Liabilities				
(i) Borrowings	2,059	2,385	2,908	3,247
(ii) Lease Liabilities	9	10	23	56
(iii) Trade Payable	775	1,036	1,321	2,301
(iv) Other financial liabilities	29	41	82	90
Current tax liabilities	1	4	30	6
Provisions	14	19	25	43
Other current liabilities	142	115	112	352
<b>Total Current Liabilities</b>	<b>3,030</b>	<b>3,612</b>	<b>4,500</b>	<b>6,095</b>
<b>Total liabilities</b>	<b>3,816</b>	<b>4,334</b>	<b>5,426</b>	<b>7,330</b>
<b>Total Equity and Liabilities</b>	<b>8,359</b>	<b>8,454</b>	<b>9,663</b>	<b>11,710</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	3,601	3,454	3,648	3,645
Capital work in Progress	20	43	35	535
Right of Use assets	46	43	104	222
Other non current assets	27	27	27	27
Other intangible assets	23	19	27	28
(i) Investments	0	0	0	0
(ii) Other financial assets	54	93	74	60
Deferred tax assets (net)	21	25	32	34
Other non current assets	25	54	97	192
<b>Total Non current assets</b>	<b>3,816</b>	<b>3,758</b>	<b>4,043</b>	<b>4,744</b>
<b>Current Assets</b>				
Inventory	1,843	2,420	2,892	4,214
(i) Trade Receivables	1,985	1,534	1,728	1,745
(ii) Cash and cash equivalents	51	3	18	14
(iii) Other Bank Balance	274	249	310	347
(iv) Other Current Financial Assets	12	7	81	76
Other current assets	378	482	591	570
<b>Total Current Assets</b>	<b>4,543</b>	<b>4,696</b>	<b>5,620</b>	<b>6,966</b>
<b>Total Assets</b>	<b>8,359</b>	<b>8,454</b>	<b>9,663</b>	<b>11,710</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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