December 18, 2023

Development Consultants Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loan	19.44	17.44	[ICRA]BBB+(Stable); reaffirmed
Long Term- Cash Credit	7.00	7.00	[ICRA]BBB+(Stable); reaffirmed
Short Term- Non-Fund Based - Bank Facilities	23.00	23.00	[ICRA]A2+; reaffirmed
Long Term - Unallocated Limits	0.00	2.00	[ICRA]BBB+(Stable); reaffirmed
Total	**49.44**	**49.44**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Development Consultants Private Limited's (DCPL) established position and competency in the engineering and consulting space, diversified presence in varied sectors and the company's reputed clientele from both the public and the private sectors, which reduces its counterparty risk to an extent. While the new order inflow was adversely impacted till FY2022 due to the pandemic, there was fresh order addition worth over Rs. 90 crore in FY2023 and over Rs. 40 crore in H1 FY2024, which provides revenue visibility in the near-to-medium term. In addition, DCPL's dedicated recovery of past receivables support the liquidity to an extent.

ICRA also notes the delay in the expected rental income from the hotel and commercial property due to cancellation of agreement with the previous tenant. However, DCPL has received a new offer from a reputed retailer and finalisation of the terms is under process. Consequently, the rental income will be deferred to FY2025. In the current fiscal, DCPL has recorded revenue similar to FY2022 in H1 itself, indicating that the previous trend of the company to rely on substantial non-operating income for generating profits will end. This is because of high margins in new orders and closure of legacy orders. The liquidity also remained comfortable with significant cash and liquid investment balance of ~Rs. 30 crore as of December 2023.

The ratings are constrained by DCPL's stretched receivable position though the company is making significant efforts to realise the legacy receivables, leading to elevated working capital intensity and delinquency risks. Also, the core revenue and profits had consistently declined over the past few years, impacting the financial risk profile. However, the core operating performance has improved in the last and the current financial year owing to comfortable order inflow and expected better realisations. The ratings also factor in DCPL's exposure to forex risks as a significant portion of its revenue is derived from the overseas contracts.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that DCPL will continue to maintain its revenues on the back of comfortable new order inflow.

Key rating drivers and their description

Credit strengths

Established track record and high level of competency in the consultancy space – DCPL has an established track record in the design consultancy space, especially in the power sector. Over the years, the company has further diversified in other sectors like cement, paper, chemical, petrochemical, steel and other metals, mining and mineral processing, architecture, infrastructure and environment etc., thus mitigating the sectoral concentration risk to an extent. In the recent years, the company has also ventured into renewable energy sectors. The ratings also take comfort from the company's high level of competency in the field of consultancy.

Reputed clientele from both public and private sectors – DCPL's clientele includes reputed customers both from the public and the private sectors in India and overseas. The company's proven track record of providing consultancy services helped in securing repeat orders from the clients as well as reducing the counterparty credit risk to an extent.

Comfortable level of order book position with healthy fresh order inflow in H1 FY2024 – The company has an active order book of around Rs. 160 crore (as of October 2023), which is around 3.5 times of its operating income in FY2023. The company received orders worth ~Rs.40 crore in H1 FY2024, primarily in the chemicals and minerals segment. The company has recovered from the declining revenue trend in FY2023 with improve in execution on account of new orders. The comfortable level of current order book position and sizeable orders in the pipeline, both in the domestic and the overseas markets, render revenue visibility in the near-to-medium term.

Sizeable free cash and bank balance and significant non-operating income support liquidity – The company's free cash and bank balance remained comfortable at around Rs.30 crore as on March 31, 2023. Cash accruals from core operations and high non-operating income will continue to support the debt servicing requirement and moderate capex requirement in the coming years. Moreover, rental income from the new commercial property is expected to commence from FY2025, which would further support DCPL's cash accruals.

Credit challenges

Significantly high receivable level, leading to elevated working capital intensity and delinquency risks – DCPL's stretched receivable position impacts its working capital intensity. The company's net working capital relative to its operating income stood at an elevated level of ~110% in FY2023 on the back of high debtor days, thus exerting pressure on the cash flows. Besides, the high level of receivables expose the company to delinquency risks. However, ICRA notes that the company is making significant efforts to realise the stuck receivables and recovered overdue bills from NALCO (NRTC), Exide Industries (Haldia), BARC, etc. in the recent times. Though the receivable position has improved in the current fiscal, it continues to remain elevated.

Moderate scale of operations –The company has a moderate scale of operations with an operating income of Rs. 45.65 crore in FY2023. While the order book has remained comfortable on account of strong inflow of new orders, the operating income is expected to remain moderate at Rs. 61.16 crore in FY2024.

Long-term loans availed for construction of real-estate properties led to increased debt service obligation; rental income from the real estate property has been further delayed – The company had availed long-term loans, which have primarily been utilised for construction of commercial real estate properties. This led to increased debt service obligations. However, revenue materialisation would be deferred to FY2025 on account of departure of the old tenant. At present, the company is in talks with another reputed retailer, which is likely to result in an incremental rental income from H2 FY2025, supporting the company's cash accruals.

Liquidity position: Adequate

The company's liquidity position is likely to remain adequate, supported by cash and bank balance of ~Rs. 30 crore as of November 2023. The scheduled debt repayment is expected to remain Rs. 2-3 crore in FY2024 and FY2025. However, cash accruals from core operations and high non-operating income will continue to support the debt servicing requirement and moderate capex requirement in the coming years. Moreover, rental income from the new commercial property is expected to commence from FY2025, which would further support DCPL's cash accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to significantly improve its scale of operation and profits on a sustained basis, strengthening its debt protection metrics. A significant decline in DCPL's high receivable levels, resulting in improved liquidity, is also a key factor for ratings upgrade.

Negative factors – The ratings may be downgraded in case of a deterioration in the company's profitability and/or a further stretch in its receivable position or a sizeable debt-funded capex, exerting pressure on the liquidity. Specific triggers for ratings downgrade will be DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Development Consultants Private Limited (DCPL) is a Kolkata-based company involved in engineering and consultancy services for various industries, especially in the power sector. The company was incorporated in 1970. It was promoted by a group of engineers, led by Late Sadhan C. Dutt. DCPL provides design consultancy services for projects in India as well as overseas. The company has so far executed over 1,600 projects in various sectors including power, cement, paper, chemicals, petrochemicals, steel and other metals, space, defence, mining and mineral processing, architecture, infrastructure and environment, asset valuation consultancy etc. DCPL is associated with the renowned consulting engineers, The Kuljian Corporation, of the US, and has two foreign subsidiaries through which the company receives overseas contracts.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	38.26	45.66
PAT	0.70	3.90
OPBDIT/OI	9.34%	7.88%
PAT/OI	1.82%	8.55%
Total outside liabilities/Tangible net worth (times)	0.48	0.44
Total debt/OPBDIT (times)	8.47	8.58
Interest coverage (times)	1.79	1.51

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of October 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 18, 2023	Jan 27, 2023	March 4,2022	Jan 13,2021
Term Loan	Long term	17.44	17.44	**[ICRA]BBB+(Stable)**	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
Cash Credit	Long term	7.00		**[ICRA]BBB+(Stable)**	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
Bank Guarantee	Short term	23.00		**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
Unallocated Limits	Long term	2.00		**[ICRA]BBB+**	-	-	[ICRA]BBB+ (Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Bank Guarantee	Very Simple
Unallocated long term	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	~2016-22	NA	~2031-32	17.44	[ICRA]BBB+(Stable)
NA	Cash Credit	NA	NA	NA	7.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	NA	NA	NA	23.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	2.00	[ICRA]BBB+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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