November 16, 2017

DCS Techno Services Private Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund Based Limits	5.75	[ICRA]BB (Stable) reaffirmed
Non Fund Based Limits	6.25	[ICRA]BB (Stable)/[ICRA]A4 reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]BB (pronounced ICRA double B) assigned to the Rs 5.75 crore[1] fund based limits of DCS Techno Services Private Limited (DCSTSPL) [†]. ICRA has also reaffirmed the ratings of [ICRA]BB/[ICRA]A4 (pronounced ICRA A four) assigned to the Rs 6.25 crore non fund based limits of DCSTSPL. The outlook on the long term rating is 'stable'.

Rationale

The reaffirmation of ratings continues to factor in the long standing experience of management in the Mining and Construction Equipment (MCE) dealership industry; established relationships with its customers resulting in repeat orders; and authorised sole dealer for spares of construction and mining equipments manufactured by Kennametal Inc in India. The ratings also takes comfort from healthy financial profile as characterised by gearing of 0.73 times as at March 31, 2017, interest coverage ratio at 2.36 times and NCA/debt at 17% for FY2017; and established relationships with principals as reflected in repeat orders.

The ratings, however are constrained by moderate scale of operations of the company in the MCE dealership industry with revenues of Rs. 33.24 crore in FY2017; high cyclicality inherent in the MCE industry; and high working capital intensive nature of operations owing to high debtor and inventory days. This has resulted in high average utilization of fund based limits at 87% for the last 14 months ended October 2017. The ratings are also constrained by vulnerability of profitability to foreign exchange fluctuations with no defined hedging policy as company imports majority of the products and competitive pressures from other construction and mining equipments and spare parts manufacturers and dealers, which restricts the margins of the company.

Going forward, the ability of the company to improve its scale of operations and margins with effective management of working capital requirements would be the key rating sensitivities.

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[1] *100 lakh = 1 crore = 10 million*

[†] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Key rating drivers

Credit strengths

- **Experienced promoters**: The Company is promoted by Mr. Abhay Kasbekar who has long experience in the construction and mining equipment dealership industry. The company is part of DCS limited group which is engaged in construction and mining business with major focus on providing deep and underground evacuations, construction services
- **Sole authorized dealer:** DCSTSPL is authorised sole dealer for consumables and spares of construction and mining equipments manufactured by Kennametal Inc in India. The revenues from Kennametal contributed to 49% of total sales in FY2017.
- **Comfortable capital structure and coverage indicators:** The gearing of DCSTSPL is low at 0.73 times as on March 31, 2017 and debt-protection metrics are adequate with interest coverage ratio of 2.36 times and NCA/debt of 17% for FY2017 owing to moderate debt levels.
- **Established relationships with customers and principals**: The established relationships with customers resulting in repeat orders and established relationships with principals along with diversified product profile years shall aid the revenue growth of the company in the near term.

Credit weakness

- **Moderate scale of operations**: The Company is in MCE industry with moderate scale of operations with revenues of Rs. 33.24 crore in FY2017.
- **High working capital intensity:** The working capital intensity is high at 42% in FY2017 owing to high debtor and inventory days; also average working capital utilisation in the last 15 months is high at 87%.
- **Exposure to foreign exchange fluctuations:** The profitability is vulnerable to foreign exchange rate fluctuations, with no defined hedging policy.
- **High Competition and cyclical nature of construction equipment industry**: DCSTSPL faces high competition from other construction, mining equipments and spare parts manufacturers constraining margins. Further, the business is susceptible to cyclicality in the construction and mining industries which in turn is linked to the economic activity.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

Corporate Credit Rating Methodology

About the company

Incorporated in 2000, DCS Techno Services Private Limited (DCSTSPL) is involved in trading of consumables and spare parts related to construction equipment and mining industry. DCSTSPL supplies consumables and tools from its registered office in Hyderabad and eight branch offices located in New Delhi, Mumbai, Kolkata, Talcher (Odisha), Trichy, Ahmedabad, Udaipur and Vijayawada and two warehouses in Hyderabad and Trichy. It is a part of DCS Group (erstwhile Delta Construction Systems Limited), which is into EPC contract business with major focus on construction and mining.

Key Financial Indicators

Particulars	FY2016	FY2017
Operating Income (Rs. crore)	28.87	33.24
Net Profit (Rs. crore)	0.71	1.12
OPBITDA/OI (%)	6.93%	6.78%
RoCE (%)	13.83%	12.50%
Total Debt / Tangible Net worth (times)	0.70	0.73
Total Debt / OPBITDA (times)	3.33	3.25
Interest coverage (times)	1.85	2.61
NWC/OI (%)	45%	41%

*Source:DCSTSPL and ICRA research ;*Provisional OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable**.**

Rating history for last three years
Table

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type (Long term/ Short term)	Rated amount (Rs. Crore)	Month - year & rating in FY2018	Month – year & Rating in FY2017	Month – year & Rating in FY2016	Month - year & Rating in FY2015
1	Fund Based Limits	Long term	5.75	**November 2017**	September 2016	-	-
				[ICRA]BB(Stable)	[ICRA]BB(Stable)	-	-
2	Non Fund Based Limits	Long Term/Short term	6.25	[ICRA]BB(Stable)/[ICRA]A4	[ICRA]BB(Stable)/[ICRA]A4	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit Limits			-	5.75	[ICRA]BB(Stable)
Letter of Credit/ Bank Guarantee			-	6.25	[ICRA]BB(Stable)/ [ICRA]A4

Source: DCSTSPL

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