

## Diligent SCM Solutions Private Limited

January 16, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	6.14	6.14	[ICRA]D; Downgraded from [ICRA]B+(Stable)
Non-Fund based limits	0.45	0.45	[ICRA]D; Downgraded from [ICRA]A4
Unallocated limits	5.91	5.91	[ICRA]D/[ICRA]D; Downgraded from [ICRA]B+(Stable)/[ICRA]A4
<b>Total</b>	<b>12.50</b>	<b>12.50</b>	

\* Instrument details are provided in Annexure-1

### Rating action

ICRA has downgraded the long-term rating to [ICRA]D (pronounced ICRA D) from [ICRA]B+ (pronounced ICRA B plus) assigned to the Rs. 6.14 crore<sup>1</sup> fund based limits of Diligent SCM solutions Private Limited (DSSPL or the company)<sup>2</sup>. ICRA has also downgraded the short-term rating to [ICRA]D from [ICRA]A4 (pronounced ICRA A four) to the Rs. 0.45 crore non-fund based facilities bank facilities of DSSPL. The long-term/short-term rating has also been downgraded to [ICRA]D/[ICRA]D from [ICRA]B+/[ICRA]A4 to Rs. 5.91 core unallocated limits of DSSPL.

### Rationale

The rating downgrade follows delays in debt servicing by DSSPL to the lenders on account of stretched liquidity position owing to delay in receiving Goods and Services Tax (GST) refunds from exports since the implementation of GST in July, 2017. The assigned ratings are constrained by DSSPL's small scale of operations with revenues of Rs. 9.03 crore in FY2016 and Rs. 19.78 crore in 11M FY2017; and weak financial profile characterised by high gearing of 3.81 times, low net worth of Rs. 2.04 crore and high TOL/TNW of 5.62 times as on September 30, 2016. The ratings also consider high working capital-intensive nature of business owing to high inventory and debtor levels, and high customer concentration with a single customer, GE Power & Water Business (GE), accounting for 83% of the total revenue in FY2016. ICRA notes that with debt-funded capital expenditure plans on the anvil to setup new manufacturing facility to adversely impact capital structure and coverage indicators in the near term. However, the ratings draw comfort from the healthy growth of income from Rs. 1.14 crore in FY2013 to Rs. 9.03 crore in FY2016 at a CAGR of 99.34% albeit on a low base and experience of the promoters and the management in manufacturing technology with more than two decades of experience in different phases of mechanical and electro-mechanical product development. The ratings consider reputed client base such as General Electric (GE), Sulzer Ltd. and established relationship with key clients as reflected in repeat orders over the years. The rating also draws comfort from GE's agreement with DSSPL in January 2016, valid for two years, committing to annual off-take of USD 2.7 million worth of cloth seals used in gas turbines.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

Going forward, timely servicing of debt obligations will be the key monitorable. Further, the ability of the company to improve its profitability while managing its working capital requirements would remain key rating sensitivities from credit perspective

## Outlook: NA

### Key rating drivers

#### Credit strength

**Healthy growth of income albeit on a low base** - The operating income of the company increased from Rs. 1.14 crore in FY2013 to Rs. 9.03 crore in FY2016 aided by increase in receipt and execution of new orders; however, the scale continues to remain small despite healthy growth albeit on a low base.

**Experience of promoters in mechanical and electro-mechanical product development spanning over two decades years** - DSSPL designs, develops, tests, and manufactures precision-engineered components. The company also develops and validates alternate manufacturing processes (low cost) and caters to the process requirements for various industrial sectors. The promoters have over 23 years of global experience in all phases of mechanical and electro-mechanical product development including engineering, manufacturing, quality, procurement and program management.

**Reputed client base reducing counterparty risk** - The company has reputed customer base like GE, Sulzer Ltd., Alstom SA, GKN Plc reducing counterparty risk. DSSPL has been recognised by GE as a strategic supplier with respect to a key component used in gas turbine, namely cloth seals. Apart from cloth seals, the company also supplies spares for turbines, which are used during overhaul and maintenance.

#### Credit challenges

**Delay in debt servicing** - The rating downgrade follows the delays in debt servicing by DSSPL to the lenders on account of stretched liquidity position owing to delay in receiving GST refunds from exports since the implementation of GST in July, 2017

**Financial profile characterised by leveraged capital structure** – The financial risk profile of DSSPL is weak characterised by high gearing of 3.81 times as on September 30, 2016 owing to low net worth and high working capital borrowings and high TOL/TNW of 5.62 times for 6MFY2017. However, the company has Rs. 1.52 crore interest free unsecured loans from promoters, adjusting for which gearing stands at 3.06 times as on September 30, 2016.

**High working capital intensive nature of business owing to high debtor days which impacts liquidity** - The working capital intensity of the company remained high at 32.41% in 6MFY2017 due to higher inventory days owing to high work in progress, and higher debtor days. The company generally receives payments from its clients within 120 days.

**High customer concentration risk** - The customer concentration risk is high as GE alone accounted for 83% of the total revenue in FY2016. However, the risk is mitigated to certain extent owing to reputed customer base.

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

**Links to applicable criteria:**[Corporate Credit Rating Methodology](#)[ICRA's Policy on default recognition](#)**About the company:**

Incorporated in 2005, Diligent SCM Solutions Private Limited (DSSPL) is involved in designing, developing, testing, manufacturing and sourcing of precision engineered components. Mr. Dantuluri Phani Varma, the Managing Director, has over two decades of global experience in different phases of mechanical and electro-mechanical product development. The company is also involved in development and validation of alternate manufacturing processes, handling super alloys and meeting the process requirements for different sectors. However, the focus, as of now, has been on the power generation segment. DSSPL has entered into annual agreement with General Electric International INC. (GE) through its GE Power & Water Business and has been recognised by GE as a strategic supplier with respect to a key component used in gas turbine, namely cloth seals. Apart from cloth seals, the company is also a supplier of spares for turbines, which are used during overhaul and maintenance.

**Key financial indicators**

	FY 2016 (audited)	6M FY 2017 (prov)
Operating Income (Rs. crore)	9.02	9.50
PAT (Rs. crore)	0.23	0.28
OPBDIT/ OI (%)	12.95%	13.48%
RoCE (%)	19.94%	32.03%
Total Debt/ TNW (times)	2.29	3.81
Total Debt/ OPBDIT (times)	2.69	3.03
Interest coverage (times)	5.18	4.60
NWC/ OI (%)	19.28%	32.41%

**Status of non-cooperation with previous CRA: Not applicable****Any other information: None**

### Rating history for last three years:

Current Rating (FY2018)						Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating May 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Fund-based limits	Long Term	6.14	6.14	[ICRA]D	[ICRA]B+ (Stable)	-	-	-
2 Non-Fund based limits	Short Term	0.45	0.45	[ICRA]D	[ICRA]A4	-	-	-
3 Unallocated limits	Long/ Short Term	5.91	5.91	[ICRA]D/ [ICRA]D	[ICRA]B+ (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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Open Cash Credit	-	-	-	1.30	[ICRA]D
NA	Packing Credit/Foreign Discounting Bill	-	-	-	4.00	[ICRA]D
NA	Term Loan -1	June 2013	-	June 2020	0.15	[ICRA]D
NA	Term Loan -2	January 2014	-	December 2020	0.15	[ICRA]D
NA	Term Loan -3	January 2016	-	June 2019	0.09	[ICRA]D
NA	Term Loan -4	July 2016	-	June 2021	0.45	[ICRA]D
NA	Letter of Credit	-	-	-	0.20	[ICRA]D
NA	Bank Guarantee	-	-	-	0.25	[ICRA]D
	Unallocated Limits	-	-	-	5.91	[ICRA]D/[ICRA]D

Source: DSSPL

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