

Dott Services Private Limited

April 10, 2018

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Short term – Non fund based limits	36.30	[ICRA]A4+; Assigned
Short term - Unallocated limits	63.70	[ICRA]A4+; Assigned
Total	100.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus)¹ to the Rs. 36.30 crore² non fund-based bank limits and Rs.63.70 crore unallocated limits of Dott Services Private Limited (DSPL/the company).

Rationale

The rating positively factors in the strong operational and financial support from its parent company, Dott Services Limited (DSL), which has vast experience of over two decades in construction industry and supported DSPL by providing corporate guarantees and in meeting technical criteria to bid for orders. The rating considers healthy revenue growth of ~280% in FY2016 and ~230% in FY2017 on the back of healthy order book. The rating also considers strong order book of Rs.1747.5 crore as on February 28, 2018, which is ~5.2 times of FY2017 revenues, providing revenue visibility over the medium term.

However, the rating is constrained by the company's high order book (OB) concentration with a single order from The Singareni Collieries Company Limited (SCCL) contributing >80% of total OB as on February 2018. Any delays in executing the order book would adversely impact DSPL's revenues and could lead to liquidated damages (LD). ICRA notes that while there have been delays in execution in the past, the same has been on account of force majeure events and LD have not been charged. The rating considers moderate financial profile characterised by high gearing, moderate coverage indicators, and high repayment obligations in the near term. Moreover, the company has debt-funded capex plans over the next two years which could impact the financial profile further. The rating considers the company's weak bargaining power in a highly competitive construction industry, and a tender based contract awarding system followed by Government departments keeping margins under check.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Support from parent company, which has significant experience in construction industry: DSPL is a wholly-owned subsidiary of Dott Services Limited, which has over two decades of experience in executing construction projects in the East African region (Uganda, Tanzania and South Sudan). DSPL has leveraged on its parent's experience to meet the technical criteria for bidding for the projects and also received financial support from the parent company in the form of corporate guarantee for bank limits and loans and advances to buy equipment.

Healthy growth in operating for the last three financial years – DSPL witnessed a healthy revenue growth of ~280% in FY2016, which was its first full year of operations, and ~230% in FY2017 on the back of healthy order book.

Strong unexecuted order book position with OI/Order book of ~5.2 times as on February 2018: The firm's order book position is healthy with unexecuted order book of Rs. 1747.5 crore as on February 2018, which is 5.2 times FY2017 revenues, providing revenue visibility over the medium term.

Credit weaknesses

High order book (OB) concentration with a single order contributing >80% total OB as on February 2018– DSPL high order book (OB) concentration with a single order from The Singareni Collieries Company Limited(SCCL) Telangana contributing >80% of total OB as on February 2018. Any delays in executing the order book would adversely impact DSPL's revenues and could lead to liquidated damages (LD). While there have been delays in execution in the past, the same was on account of force majeure events such as rain and DSPL was never charged liquidated damages.

Moderate financial profile with high gearing and moderate coverage indicators: The financial profile of the company characterised by high gearing at 1.5 times as on March 31, 2017 due to increase in long term debt and moderate coverage indicators with TOL/TNW of 4.0 times and Total Debt / OPBTDA of 1.9 times.

Huge repayment obligations and debt funded cap-ex plans in near to medium term –The company has huge repayment obligations in near to medium term towards equipment loans availed from financial institutions. DSPL also has debt funded capex plans in the next two years, which could impact the financial profile.

Highly competitive industry: Fragmented and highly competitive nature of the industry, coupled with a tender based contract awarding system followed by Government departments, keeps margins under check

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company:

Dott Services Private Limited (DSPL), incorporated as a private limited company in February 2014, is a wholly-owned subsidiary of M/s [Dott Services Limited](#), which is an East African based construction company with experience of over two decades in executing construction projects. DSPL is managed by its directors Mr.K.Venkateswara Rao and MR.Ravi Varma. The company has been executing OB removal works at mines since inception.

DSPL has reported an operating income of Rs. 334.0 crore and net profit of Rs. 3.8 crore in FY2017 as against an operating income of Rs. 101.3 crore and net profit of Rs. 2.3 crore in FY2016.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	101.3	334.0
PAT (Rs. crore)	2.3	3.8
OPBDIT/ OI (%)	4.2%	6.6%
RoCE (%)	12.5%	22.3%
Total Debt/ TNW (times)	0.8	1.5
Total Debt/ OPBDIT (times)	4.7	1.9
Interest coverage (times)	6.5	4.7
NWC/ OI (%)	14.5%	1.3%

DSPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating in FY2019		Date & Rating April 2018	Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Non-Fund based limits- Short term	Long Term	36.30	36.30	[ICRA]A4+	-	-	-
2	Unallocated limits- Short term	Long Term	63.70	63.70	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	-	-	-	36.30	[ICRA]A4+
NA	Unallocated Limits	-	-	-	63.70	[ICRA]A4+

Source: DSPL

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