

Development Consultants Private Limited

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	15.00	16.00	[ICRA]A(Stable) reaffirmed
Fund Based - Cash Credit	7.00	7.00	[ICRA]A(Stable) reaffirmed
Non-Fund Based -Bank Facilities	42.50	41.00	[ICRA]A1 reaffirmed
Fund Based -Bank Facilities	0.50	0	-
Total	65.00	64.00	

Rating action

ICRA has reaffirmed the [ICRA]A (pronounced as ICRA A) rating for the Rs. 7.00-crore¹ fund-based working capital facilities and Rs.16.00-crore (enhanced from Rs 15.00 crore) term-loan facilities of Development Consultants Private Limited (DCPL)². The outlook on the long-term rating is Stable. ICRA has also reaffirmed the [ICRA]A1 (pronounced as ICRA A one) rating assigned to the Rs. 41.00-crore (reduced from Rs 42.50 crore) non-fund based working capital facilities of DCPL.

Rationale

The reaffirmation of the ratings considers DCPL's established position and competency in the engineering and consulting space, especially in the power industry, and the company's strong client profile, which includes reputed names from both the public and the private sectors. ICRA notes that the company's expertise in the technologically intensive projects, where competition is limited, helps it in maintaining adequate margins. While reaffirming the ratings, ICRA has taken note of DCPL's reduced scale of operations because of a slow pace of order execution in FY2018 as well as its high receivable position as of end FY2018, which has constrained its fund flow from operations during the year. Nevertheless, a negative net debt position, an extended maturity of long-term loans and high non-operating income vis-a-vis the company's debt service requirement continue to support the ratings.

The ratings, however, also consider DCPL's exposure to sectoral concentration risks, with the power sector accounting for the maximum portion of DCPL's revenues, notwithstanding the company's efforts to diversify its revenue base. While DCPL's order inflow remains robust, the pace of order execution has slowed over the last few years. Moreover, a sizeable portion of the new orders remains concentrated in the power sector. Hence, going forward, the trend in revenue would depend on the pace of execution of the orders in hand. Besides, the company's ability to control its costs and receivable position while growing its topline would be the key sensitivities. Additionally, the ability to attract and retain quality manpower to execute the orders in hand is likely to be a key factor for the company's success in the future. ICRA continues to take comfort from DCPL's large cash and bank balances, which provide financial flexibility to the company. ICRA takes cognisance of DCPL's foray into a hotel project, which is to be funded by monetising some of its non-core assets. Hence funding for the project is unlikely to lead to any deterioration of the financial profile of the company, going forward.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA expects DCPL's pace of order execution to improve, going forward, which would lead to stable cash flow from operations. The outlook may be revised to Positive if there is a sustained increase in the company's scale of operations with healthy business margins. The outlook may be revised to Negative if the scale of operations does not improve or there is a further build-up in receivables.

Key rating drivers

Credit strengths

Established track record and high level of competency in the consultancy space – DCPL's established track record in the design consultancy space helps it in receiving orders at regular intervals. The ratings take comfort from the company's high level of competency in this field.

High financial flexibility – DCPL's large cash and bank balance provides the company with a high financial flexibility. Moreover, a large non-operating income vis-a-vis its debt service requirement provides an added comfort to the ratings.

Strong client profile – DCPL has a strong client profile, which includes reputed names both from the private as well as the public sector.

Credit challenges

Slowdown in order execution leading to reduced scale – DCPL's pace of order execution slowed in the last two financial years, which reduced the company's scale of operations. However, order inflow remains healthy.

High outstanding receivable position – DCPL's high outstanding receivable position impacts its working capital intensity, which in turn led to reduced fund flow from operations in the last few years. The company is exposed to the risk of some of these receivables turning bad, going forward.

Sectoral concentration – Notwithstanding some diversification, DCPL's sectoral concentration risks remain high as indicated by a high share of both revenue and order booked in the power sector.

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:

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 1950 by a small 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 1,500 projects in various sectors like Power, Cement, Paper, Chemical, Petrochemical, Steel & Metals, Space, Defence, Mining & Mineral Processing, Architectural, Infrastructure Development, and Environmental and Management Consultancy. DCPL is the Indian arm of renowned consulting engineers, The Kuljian Corporation, of the US.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	FY2018 (Provisional)
Operating Income (Rs. crore)	72.7	69.5	60.6
PAT (Rs. crore)	7.0	5.9	8.6
OPBDIT/ OI (%)	3.55%	13.02%	12.06%
RoCE (%)	17.43%	13.97%	14.87%
Total Debt/ TNW (times)	0.5	0.3	0.2
Total Debt/ OPBDIT (times)	15.7	3.9	3.3
Interest coverage (times)	0.4	1.6	2.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2018 Apr-17	Date & Rating in FY2017 Aug-16	Date & Rating in FY2016 Jan-16
1 Term Loan	Long Term	16.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
2 Fund Based - Cash Credit	Long Term	7.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
3 Non-Fund Based -Bank Facilities	Short Term	41.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Fund Based - Bank Facilities	Short Term	-	-		[ICRA]A1	[ICRA]A1	[ICRA]A1

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	Term Loan		9.80%	FY2024-27	16.00	[ICRA] A (Stable)
NA	Fund Based - Cash Credit				7.00	[ICRA] A (Stable)
NA	Non-Fund Based -Bank Facilities	-	-	-	41.00	[ICRA] A1

Source: Development Consultants Private Limited

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104
kaushikd@icraindia.com

Soumyajyoti Basu

+91 33 7150 1109
soumyajyoti.basu@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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