

DCS Limited

May 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	121.55	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	121.55 (Rs. One Hundred Twenty-One Crore and Fifty-Five Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 03, 2020, placed the rating of DCS Limited (DCS) under the 'issuer non-cooperating' category as DCS had failed to provide information for monitoring of the rating. DCS continues to be non-cooperative despite request for submission of information through e-mail, phone calls and an email dated April 21, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The rating is constrained by the elongated operating cycle due to higher debtor's collection period resulting in stretched liquidity position and negligible growth in total income during FY19 and FY20 (refers to April 01 to March 31) despite healthy order book, and intense competition due to tender based nature of operation. However, the rating is underpinned by experienced promoters with established track record, satisfactory profit margins and healthy asset base.

Detailed description of the key rating drivers

At the time of last rating on March 03, 2020, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies):

Key Rating Weaknesses

High client concentration in the order book: DCS has an outstanding order book position of Rs.627.15 crore as on July 31, 2019 (against Rs.420.42 crore as on February 28, 2019) which at gross billing level for FY19 translates into order book to gross billing ratio of 6.74x and thereby provides revenue visibility for the medium term. However, the order book is concentrated with orders for mining work for Hindustan Copper Ltd comprising about 63% of the order book.

Elongated operating cycle with stretched liquidity position: The operating cycle of the company has further deteriorated from 184 days in FY18 to 196 days in FY19 on an account of increase in collection period from 206 days in FY18 to 230 days in FY19. The collection period remained elongated on an account of increase in unbilled revenue. The operating cycle continues to remain elongated at 230 days in FY20 on an account of increase in collection period to 269 days in FY20. Consequently, the liquidity of the company remains stretched.

Flat revenue growth despite healthy order book: The total income of the company remained at similar level during FY19 at Rs.93.20 crore against Rs.92.39 crore during FY18. The operating income registered negligible growth despite healthy order book with slower movement of the order book position. During FY20 also, revenue growth remained flat at Rs.95.47 crore.

Tender based nature of operation resulting in intense competition: The company receives its work orders based on tender basis from public and private companies. Hence, the revenue is dependent on company's ability to bid successfully for these tenders. There are numerous fragmented and unorganized players operating in the segment which makes civil construction and mining segment highly competitive.

Key Rating Strengths

Experienced promoters with established track record: DCS Limited is promoted by Mr. Raghu Prasad, Mr. Satya Prasad, Mr. Hari Prasad and Mr. R B Bhatkar. The promoters are qualified and have significant experience in the field of construction and mining. The company is also supported by a strong team having technical competence and experience of handling projects independently.

Satisfactory profitability: The PBILDT margin has been satisfactory with marginal growth witnessed in FY19 from 18.41% during FY18 to 19.98% during FY19. In line with PBILDT margin, the PAT margin has almost doubled during the year (from 2.93% in FY18 to 4.98% in FY19) aided by reduced finance cost. The profitability continued to remain satisfactory in FY20.

Healthy asset base: As on March 31, 2019, the company had gross block of Rs.73.51 crore (moved to Rs.76.92 crore as on Mar 31 2020). Given the nature of orders in hand; the current size of asset base is adequate to execute the projects majorly on its

own. The comfortable asset base built over the years has also resulted in moderate reliance on sub-contracting and equipment leasing and thereby facilitating better realizations and better profitability levels thereof.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Construction Sector](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non-Financial Sector](#)

About the Company

DCS Limited (DCS) was originally incorporated, on September 27, 1994, (as Delta Construction Limited) and subsequently the name of the company was changed to current nomenclature. The company is engaged in execution of civil construction work with work activity spanning across irrigation projects, bridges, industrial, commercial and residential buildings and underground tunnel works.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	93.20	95.47
PBILDT	18.62	18.99
PAT	4.64	6.07
Overall gearing (times)	1.39	1.16
Interest coverage (times)	2.29	2.83

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	90.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	17.50	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	June 2021	14.05	CARE BB; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - LT-Bank Guarantees	LT	90.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Mar-20) 2)CARE BB+; Negative (01-Apr-19)	1)CARE BB+; Stable (02-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	17.50	CARE BB; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Mar-20) 2)CARE BB+; Negative (01-Apr-19)	1)CARE BB+; Stable (02-Apr-18)
3.	Fund-based - LT-Term Loan	LT	14.05	CARE BB; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Mar-20) 2)CARE BB+; Negative (01-Apr-19)	1)CARE BB+; Stable (02-Apr-18)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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