

Dynacons Systems & Solutions Limited

November 27, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|---------------------|-------------------------------|---------------|
| Long-term bank facilities | 55.00 | CARE BBB+; Positive | Assigned |
| Long-term / Short-term bank facilities | 55.00 | CARE BBB+; Positive / CARE A2 | Assigned |
| Short-term bank facilities | 120.00 | CARE A2 | Assigned |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Dynacons Systems & Solutions Limited (DSSL) reflect the company's established track record and the extensive experience of its promoters in the information technology (IT) services industry and CARE Ratings Limited's (CARE Ratings') expectations that the company will maintain adequate performance over the medium term supported by its established relationship with reputed clientele and suppliers and vintage in the industry. Ratings factor in the sustained improvement in DSSL's scale of operations in the last five years, as reflected by its revenue compounded annual growth rate (CAGR) of ~27% between FY19 and FY24, to ₹1,024 crore (PY: ₹804.47 crore) in FY24, backed by new client additions and repeat orders from existing clients amidst accelerated spending on digital transformation initiatives and cloud adoption. DSSL's profit before interest, lease rentals, depreciation and taxation (PBILDT) margins also improved to 7.62% in FY24 (PY: 6.80%) due to benefits from economies of scale and higher contribution from value-added services translating into better gross cash accruals (GCA). DSSL's capital structure remains comfortable marked by overall gearing at 0.23x, indicating low reliance on borrowings, as it funds its working capital through extended credit period from suppliers as indicated by total outside liabilities to tangible net worth (TOL/TNW) of 2.73x as on March 31, 2024. Its debt protection metrics stood comfortable marked by PBILDT interest cover of 8.80x and total debt to GCA of 0.8x in FY24. CARE Ratings expects the company to continue to maintain healthy operating performance backed by long-term association with key customers.

However, ratings remain constrained by DSSL's high working-capital intensive operations marked by gross current days above 200 days in FY24 largely due to extended credit period offered to customers, which is majorly financed through credit offered by suppliers. The company is exposed to high competitive intensity from other players in the industry which limits its pricing flexibility and puts pressure on its margins. The company is also exposed to broader IT industry risks such as global demand slowdown, high employee attrition which could impact its operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Sustained growth in scale of operation and improvement in PBILDT margins.
- Improvement in TOL/TNW below 2.20x.

Negative Factors

- Significant decline in the turnover and lower-than-envisaged operating profit margins.
- Deterioration in the capital structure with the overall gearing exceeding 0.50x on a sustained basis.
- Elongation in operating cycle driven by increase in collection days on a sustained basis.

Analytical approach: Consolidated

Consolidated financials have been considered due to presence of common management, brand name, and operational linkages with subsidiary. List of entities considered for consolidation mentioned in Annexure- 6.

Outlook: Positive

The positive outlook reflects an expectation of improvement in DSSL's business risk profile over the medium term driven by a healthy order book position with addition of new clients and increase in business from existing clients resulting in improvement in TNW. The company's TOL/TNW is expected to improve over the medium term below 2.20x. The outlook may be revised to 'Stable' if the company is unable to ramp-up the scale as envisaged or sustain the margins or achieve cash accruals as envisaged.

Detailed description of key rating drivers:

Key strengths

Improving scale of operation and stable profitability leading to healthy cash accruals

DSSL's scale of operations has grown at a healthy CAGR of ~27% in the last five years between FY19 and FY24, wherein it stood at ₹1,024.46 crore in FY24 compared to ₹311.90 crore in FY19 and it has also shown the growth of ~27% YoY. The growth is primarily considering consistent orders from existing as well as new customers and accelerated spending on digital transformation

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

initiatives and cloud adoption. In FY24, DSSL's PBILDT margins improved to 7.62% (PY: 6.80%) and PAT margins improved to 5.25% (PY: 4.16%) due to economies of scale and higher contribution from value-added services translating into better GCA. CARE Ratings expects the company to continue to record healthy operating performance backed by long-term association with key customers.

Diversified revenue profile and service offerings and long-standing relationship with reputed clientele

DSSL offers a wide range of services, IT System Integration (SI), IT infrastructure management, software solutions, security & surveillance systems, and networking solutions, among others, which enables the company to broaden its business by way of revenue streams. DSSL has a reputed client base, including marques names in the banking financial services and insurance (BFSI), public sector units (PSU) and global & others. It includes reputed client such as Reserve Bank of India, ICICI Bank, Brihanmumbai Municipal Corporation, Facebook India Online Services Pvt. Ltd, and Coforge Limited among others, and reputed suppliers such as Redington Ltd, Ingram Micro India Pvt Ltd and others. DSSL has an unexecuted order book of ~₹871 crore as on August 31, 2024, which, coupled with a track record of repeat orders from key customers, provides revenue visibility.

Comfortable capital structure and debt coverage metrics

The company's financial risk profile remains adequate as reflected by overall gearing of 0.23x and TOL/TNW of 2.73x as on March 31, 2024, which indicates high dependence on creditors to fund the working capital requirements. Moreover, DSSL's business model entails sizeable bank guarantees to clients which further constrain the capital structure. Nevertheless, the debt coverage indicators stood comfortable marked by the interest coverage ratio 8.80x in FY24 (PY: 5.01x) considering improvement in profitability. Going forward, the company's ability to reduce its reliance on creditor funding remains a key rating consideration.

Key weaknesses

Working capital intensive operation

The company's operations remain working capital intensive marked by high gross current asset days at 204 days in FY24 compared to 176 days in FY23 primarily considering higher collection days. The collection period has remained stretched as the billing of revenue is done upfront, whereas debtors are realised on milestone basis per the completion of project. However, the risk is mitigated to certain extent considering the long-standing relations and reputed clientele.

Highly competitive intensity

DSSL faces intense competition from large established players, which limits its pricing flexibility and puts pressure on its margins. The company is also exposed to broader IT industry risks such as global demand slowdown, and high employee attrition which could impact its operations.

Liquidity: Adequate

DSSL's liquidity remains adequate marked by sizeable projected cash accruals against moderate fixed repayment obligations. As on March 31, 2024, DSSL has negligible free cash/bank balance of ₹0.80 crore. Net cash from operations stood positive in FY24 at ₹54.53 crore (PY: 34.25 crore). The average working capital utilisation stood at moderate levels for the last 12 months ended September 2024 providing sufficient liquidity cushion. As on March 31, 2024, the current ratio stood at 1.17x and quick ratio stood at 1.00x.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|-------------------------|------------------------|---------------|---------------------|
| Information technology | Information technology | It - services | It-enabled services |

Incorporated in 1995, DSSL is an IT infrastructure company providing systems integration, networking solutions, facility management services, security solutions, and software services. DSSL is headquartered in Mumbai and has 11 branch offices and warehouses with presence in over 300 locations across India. The company is promoted by Shirish Anjaria, Dharmesh Anjaria, and Parag Dalal and is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

| Consolidated – Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|---|--------------------|--------------------|-------------|
| Total operating income | 804.47 | 1,024.46 | 627.29 |
| PBILDT | 54.67 | 78.07 | 54.00 |
| PAT | 33.45 | 53.82 | 35.84 |
| Overall gearing (times) | 0.66 | 0.23 | 0.35 |
| Interest coverage (times) | 5.01 | 8.80 | 13.71 |

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|------|-------------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|
| Fund-based - LT-Cash credit | - | - | - | - | 55.00 | CARE BBB+; Positive |
| Fund-based - LT/ ST- Working capital limits | - | - | - | - | 55.00 | CARE BBB+; Positive / CARE A2 |
| Non-fund-based - ST-BG/LC | - | - | - | - | 120.00 | CARE A2 |

Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-------------------------------|---|--|--|--|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Fund-based - LT-Cash credit | LT | - | - | 1)Withdrawn (01-Apr-24) | 1)CARE BB; Stable; ISSUER NOT COOPERATING* (19-Jan-24) | 1)CARE BB; Stable; ISSUER NOT COOPERATING* (16-Nov-22) | 1)CARE BB; Stable; ISSUER NOT COOPERATING* (13-Sep-21) |
| 2 | Non-fund-based - LT/ ST-Bank guarantee | LT/ST | - | - | 1)Withdrawn (01-Apr-24) | 1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (19-Jan-24) | 1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Nov-22) | 1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (13-Sep-21) |
| 3 | Fund-based - LT-Cash credit | LT | 55.00 | CARE BBB+; Positive | | | | |
| 4 | Fund-based - LT/ ST-Working capital limits | LT/ST | 55.00 | CARE BBB+; Positive / CARE A2 | | | | |
| 5 | Non-fund-based - ST-BG/LC | ST | 120.00 | CARE A2 | | | | |

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1 | Fund-based - LT-Cash credit | Simple |
| 2 | Fund-based - LT/ ST-Working capital limits | Simple |
| 3 | Non-fund-based - ST-BG/LC | Simple |

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

| Sr No | Name of the entity | Extent of consolidation | Rationale for consolidation |
|-------|---------------------------------------|-------------------------|-----------------------------|
| 1 | Dynacons Systems & Solutions Pte. Ltd | Full | Subsidiary |
| 2 | Cybercons Infosec Private Limited | Proportionate | Associate |

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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