

DCS LIMITED

February 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	132.65	CARE BB+;Stable (Double B Plus; Outlook - stable)	Reaffirmed
Total	132.65 (Rupees One Hundred and Thirty two crore and Sixty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of DCS Limited are constrained by concentrated order book position, deterioration in overall gearing, moderate profitability margins, working capital intensive nature of operations and intense competition due to fragmented nature of the industry. The ratings are, however, underpinned by long and established track record of the promoters, improved total operating income of the company during, healthy asset base leading to lower dependence on sub-contracting and satisfactory project execution capability.

The ability of the company to diversify and expand the order book, recover contract proceeds in a timely manner and efficiently manage the working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

The promoters of DCS Ltd have more than two decades of experience along with rich and varied knowledge of the construction and mining segments. The company is also supported by strong team with capabilities of handling projects independently backed by vast experience.

The order book of the company is healthy at Rs.508.89 crore as on November 30, 2016. However, it is majorly concentrated on mining orders which constituted over 80% of the order book. This apart, a single order comprises 81% of the order book as on November 30, 2016.

Total operating income of the company grew at a CAGR of about 13.34% during FY14-FY16 with y-o-y growth of 26.07% in FY16 over FY15. The PBILDT margin of the company improved from 10.74% in FY15 to 11.63% in FY16.

The overall gearing of the company deteriorated as on March 31, 2016 on account of availing term loan for execution of a specific project. Other debt coverage indicators; total debt/GCA declined and Interest coverage ratios also have deteriorated on account of increase term debt and corresponding increase in interest burden leading to weak financial risk profile of the company.

Construction activity is a working capital intensive business with companies relying significantly on bank borrowings to fund the same. The average working capital utilization of the company for the last twelve

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

months ended November 2016 has been moderate at 75.26%. Working capital cycle of the company has been moderate at about 2-3 months.

Analytical approach: Standalone**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

Company Background

DCS Limited was incorporated as Delta Construction Systems Limited on September 27, 1994, by Mr. Raghu Prasad, Mr. Satya Prasad and Mr. Hari Prasad along with Mr. R B Bhatkar. The name of the organization was changed to its current nomenclature on September 27, 2013.

DCS is primarily engaged in construction and mining business with major focus on providing deep and underground excavations, construction services for irrigation projects, bridges, industrial buildings, underground tunnel works in construction sector and high-wall mining, surface mining, shaft sinking, decline development and underground mine development and production in the mining sector.

During FY16 (refers to the period April 1 to March 31), DCS Limited has reported PBILDT of Rs.11.79 crore and PAT of Rs.2.49 crore on total operating income of Rs.101.38 crore as against PBILDT of Rs.8.64 crore and PAT of Rs.1.39 crore on total operating income of Rs.80.41 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure 1

Details of Instruments/Facilities :-

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB+; Stable (Double B Plus); Stable
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A4+ (A Four Plus)

Annexure 2

Rating History for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; stable	CARE BB+(March 22, 2016)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A4+	CARE A4+(March 22, 2016)	-	-

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