

DCS Limited

March 03, 2020

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---------------------------|--|---|--|
| Long term Bank Facilities | 121.55 | CARE BB; Stable ISSUER NOT COOPERATING* (Double B; Outlook: Stable, ISSUER NOT COOPERATING*) | Revised from CARE BB+; Negative; (Double B Plus; Outlook: Negative) on the basis of Best available information |
| Total | 121.55 (Rs. One hundred twenty one crore and fifty five lakhs only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from DCS Limited to monitor the rating vide e-mail communications dated February 25, 2020, February 19, 2020, February 08, 2020 and February 04, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. 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. The rating on DCS Limited's bank facilities will now be denoted as **CARE BB; Stable ISSUER NOT COOPERATING***.

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

The rating has been revised on account of elongated operating cycle due to higher debtor's collection period resulting in stretched liquidity position and negligible growth in total income during FY19 (refers to April 01 to March 31) despite healthy order book. The rating continues to remain constrained by 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**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. 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.

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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

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.

Healthy asset base: As on March 31, 2019, the company had gross block of Rs.73.51 crore. 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](#)

[Rating Outlook and Credit Watch](#)

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

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

[Rating Methodology –Construction Sector](#)

[CARE criteria for rating short term instrument](#)

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) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income | 92.39 | 93.20 |
| PBILDT | 17.01 | 18.62 |
| PAT | 6.67 | 9.08 |
| Overall gearing (times) | 1.62 | 1.18 |
| Interest coverage (times) | 2.04 | 2.29 |

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 instruments/facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

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 |
|-------------------------------------|------------------|-------------|---------------|-------------------------------|--|
| Non-fund-based - LT-Bank Guarantees | - | - | - | 90.00 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information |
| Fund-based - LT-Cash Credit | - | - | - | 17.50 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information |
| Fund-based - LT-Term Loan | - | - | - | 14.05 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information |

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|--|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Non-fund-based - LT-Bank Guarantees | LT | 90.00 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information | 1)CARE BB+; Negative (01-Apr-19) | 1)CARE BB+; Stable (02-Apr-18) | - | 1)CARE BB+; Stable (10-Feb-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 17.50 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information | 1)CARE BB+; Negative (01-Apr-19) | 1)CARE BB+; Stable (02-Apr-18) | - | 1)CARE BB+; Stable (10-Feb-17) |
| 3. | Fund-based - LT-Term Loan | LT | 14.05 | CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Negative on the basis of best available information | 1)CARE BB+; Negative (01-Apr-19) | 1)CARE BB+; Stable (02-Apr-18) | - | 1)CARE BB+; Stable (10-Feb-17) |

*Issuer did not cooperate; Based on best available information

Annexure 3: Detailed Explanation of covenants of rated instruments/facilities- N/A

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:

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