

DCS Limited
April 01, 2019

Rating			
Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	121.55	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Reaffirmed
Total	121.55 (Rs. One Hundred Twenty-One Crore and Fifty-Five lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating to the bank facilities of DCS Limited (DCS) reflects the company's decline in total operating income, high client concentration in the order book, moderate operating cycle with weak liquidity position and presence of intense competition due to tender based nature of operations. However, the rating takes into account the company's experienced promoters with an established track record, improved profitability margins and healthy asset base leading to lower dependence on sub-contracting and better realizations.

Going forward, the company's ability to get new orders along with efficiently managing its working capital requirements with improvement in the total operation income shall remain the key rating sensitivities.

Outlook: Negative

The negative outlook on rating reflects the moderation in total operating income coupled with higher debt servicing obligation. The outlook may be revised to 'stable' post review of audited financials for FY2019.

Detailed description of the key rating drivers

Key rating Weaknesses

Decline in total operating income of the company: Total operating income of the company deteriorated from Rs. 110.14 crore in FY17 to 92.39 crore in FY18 on account of reduced income from trading activities (Rs 22.59 crore in FY17 vis-à-vis Rs 4.60 crore in FY18).

High client concentration in the order book: Outstanding order book position of DCS has marginally declined to Rs.420.42 crore as on February 28, 2019 (as against Rs.442.74 crore as on December 31, 2017). The confirmed order book position of the company translates to 4.55x of the gross billing for FY18 providing revenue visibility of short to medium term. While the order book of the company is healthy, it is majorly concentrated on orders from Hindustan Copper Limited (HCL) in consortium with IVRCL for construction and development of underground mine – shaft sinking and miscellaneous works at Malanjkhanda Copper Project at Malanjkhanda, Madhya Pradesh which constitutes about 62.04% (Rs.260.83 crore out of Rs.420.42 crore) of the order book value as on February 28, 2019. The aforesaid order from Hindustan Copper Limited (HCL) in consortium with IVRCL is pertaining to Development of Underground Mine for which the work commenced from December 2015 and is expected to be executed over the period of next three years i.e till December 2022.

Moderate Operating Cycle with weak liquidity position: The working capital cycle of the company remained moderate at 105 days. It deteriorated marginally mainly due to increase in the average inventory days of the company from 24 days in FY17 to 35 days in FY18, primarily on account of raw materials steel and other consumables stored for the execution of the order pertaining to Hindustan Copper Limited (HCL) in consortium with IVRCL. Further, the average working capital utilization of the company for the last twelve months period ended February 28, 2018 has been high at 95%. The company has free cash and balance of Rs.0.26 crore as on March 31, 2018.

Tender based nature of operations resulting in intense competition: The company receives its work orders based on tender basis from public and private companies (Bharat Dynamics Limited, Power Grid Corporation, Hindustan Copper Limited and some government undertaking companies). The revenues are dependent on the company's ability to bid successfully for these tenders. There are numerous fragmented and unorganized players operating in the segment which makes civil construction segment and mining segment highly competitive resulting in pressurizing profitability margins of the company.

Key rating Strengths

Experienced Promoters with established track record: DCS Ltd is promoted by Mr. Raghu Prasad (Civil Engineer), Mr. Satya Prasad (Finance Professional), Mr. Hari Prasad (Mechanical Engineer) and Mr. R B Bhatkar (Civil Engineer). The promoters of the company have rich experience in the field of construction and mining. The chairman of the company Mr. Avinash G Walimbe, who is a civil engineer by qualification has a working experience of about 35 years with Gannon Dunkerly & Co. Limited before joining DCS Limited. The company is also supported by a strong team with capabilities of handling projects independently.

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

Improved profitability margins of the company: PBILDT margin of the company improved from 14.34% (Rs 15.79 crore) in FY17 to 18.41% (Rs 17.01 crore) in FY18 on account of execution of more orders pertaining to the mining segment where the margins are relatively higher. On account of execution of mining projects where the material consumption is minimal relatively to civil construction, the material cost as a percentage of total operating income has almost halved from 34.28% in FY17 to 15.95% in FY18. Furthermore, the PAT margin of the company improved marginally to 2.93% during FY18 (2.28% in FY17).

Healthy asset base leading to lower dependence on sub-contracting and better realizations: As on March 31, 2018, the company had gross block of Rs.70.16 crore of which plant and machinery contributed to about Rs.61.38 crore representing about 87.48% of its gross block. During FY18, the asset turnover ratio was comfortable at about 1.42x. Given the nature of orders on 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

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

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

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

About the Company

Delta Construction Systems Limited was incorporated on September 27, 1994, by Mr. Raghu Prasad (Civil Engineer), Mr. Satya Prasad (Finance professional) and Mr. Hari Prasad (Mechanical Engineer) along with Mr. R B Bhatkar, a civil engineer from IIT, Mumbai and with a Post Graduate Diploma in Finance with vast experience in construction industry. Mr. Avinash G Walimbe, a civil engineer, is the Chairman of the company. The name of the organization is changed to its current nomenclature D C S Limited (DCS) on September 27, 2013.

DCS is primarily engaged in construction and mining business with major focus on providing deep and underground evacuations, 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 mining sector.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	110.14	92.39
PBILDT	15.79	17.01
PAT	2.51	2.71
Overall gearing (times)	1.70	1.62
PBILDT Interest coverage (times)	2.10	2.04

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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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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
Non-fund-based - LT-Bank Guarantees	-	-	-	90.00	CARE BB+; Negative
Fund-based - LT-Cash Credit	-	-	-	17.50	CARE BB+; Negative
Fund-based - LT-Term Loan	-	-	-	14.05	CARE BB+; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT-Bank Guarantees	LT	90.00	CARE BB+; Negative	1)CARE BB+; Stable (02-Apr-18)	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	17.50	CARE BB+; Negative	1)CARE BB+; Stable (02-Apr-18)	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)
3.	Fund-based - LT-Term Loan	LT	14.05	CARE BB+; Negative	1)CARE BB+; Stable (02-Apr-18)	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)

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