DCS Limited

April 02, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	128.38 (Reduced from 132.65)	**CARE BB+;Stable (Double B Plus; Outlook - stable)**	Reaffirmed
Total	**128.38 (Rupees One Hundred and Twenty Eight crore and Thirty Eight 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, moderate financial risk profile, 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 promoters, improved total operating income of the company during FY17 (refers to the period April 1 to March 31), healthy order book, 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

Key Rating Weaknesses

Concentrated Order book

The order book is majorly concentrated on mining orders which constituted over 80% of the order book. This apart, a single order comprises 67% of the order book as on December 31, 2017.

Moderate Profitability margins

PBILDT margin of the company improved from 11.63% in FY16 to 12.80% in FY17 on account of execution more orders pertaining to the mining segment where the margins are relatively better. Furthermore, the PAT margin of the company remained stable at 2.28% during FY17 (2.45% in FY16) despite increased PBILDT levels owing to increased interest expenses and depreciation cost at the back of increase in the debt levels of the company during FY17.

Moderate Financial risk profile

Overall gearing of the company has remained moderate at 1.65x as on March 31, 2017 as against 1.43x as on March 31, 2016 on account of availing term loan for execution of a specific project. Other debt coverage indicators; total debt/GCA has deteriorated from 6.80x as on March 31, 2016 to 7.38x as on March 31, 2017 however, the Interest coverage ratio has improved from 2.28x in FY16 to 2.42x in FY17.

Working Capital intensive nature of operations

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 months ended February 2018 has been moderate at 88%. Working capital cycle of the company has been moderate at about 2-3 months.

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

Intense competition due to fragmented nature of industry

The revenue of the company is dependent on the company's ability to bid successfully for work order 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

Long and established track record of promoters

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.

Improved Total operating income

Total operating income of the company grew at a CAGR of about 17.03% during FY15-FY17 with y-o-y growth of 8.64% in FY17 over FY16 on account of increase in the execution of projects. The total operating income improved from Rs. 101.38 crore during FY16 to Rs. 110.14 crore during FY17.

Healthy Order book

DCS has outstanding order book position of Rs.442.74 crore as on December 31, 2017 indicating order book to sales ratio of 4.02x. The said order book provides revenue visibility for short term to medium term.

Healthy asset base leading to lower dependence on sub-contracting and better realizations

During FY17, the asset turnover ratio was comfortable at about 2.06x. Given the nature of orders on hand; the current size of asset base is adequate to execute the projects majorly on its own. Healthy asset base would not only help the company to combat the diversified present challenges of executing the projects without time and cost over-run but also aid in lower reliance on sub-contracting, thereby facilitating in garnering 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

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 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)	FY16 (A)	FY17 (A)
Total operating income	101.38	110.14
PBILDT	11.79	14.10
PAT	2.49	2.51
Overall gearing (times)	1.43	1.65
PBILDT Interest coverage (times)	2.28	2.42
PBIT Interest Coverage (times)	1.59	1.70

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

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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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
Fund-based - LT-Cash Credit	-	-	-	17.50	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	March 2021	20.88	CARE BB+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT-Bank Guarantees	LT	90.00	CARE BB+; Stable	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)	-
2.	Fund-based - LT-Cash Credit	LT	17.50	CARE BB+; Stable	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)	-
3.	Fund-based - LT-Term Loan	LT	20.88	CARE BB+; Stable	-	1)CARE BB+; Stable (10-Feb-17)	1)CARE BB+ (21-Jan-16)	-

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