Ducon Infratechnologies Limited

April 24, 2017

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Short-term Bank Facilities	7.00	**CARE A4+ (A Four Plus) (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Total Facilities	**7.00 (Rupees Seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ducon Infratechnologies Limited (DIL) has been placed on credit watch with developing implications on account of the forthcoming amalgamation with Ducon Technologies (India) Private Limited (DTIPL), which is expected to achieve closure in Q1FY18.

The rating is constrained by small scale of operations with fluctuating income and cash accruals, moderately low profit margins, working capital intensive nature of operations with elongated operating cycle and presence in competitive industry.

The rating, however, derives strength from established track record of operations with experienced management in the IT industry, wide range of product & service offerings and comfortable capital structure and moderate debt coverage indicators.

The ability of DIL to increase the scale of operations and improve profit margins and liquidity position with efficient working capital management while maintaining the capital structure is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management in the industry with established track record of operations: The overall operations of DIL are looked after by Mr. Aun Govil, Mr. Harish Shetty and Mr. Parag Dalal, who possess over three decades of experience in various fields viz. IT, finance, electrical equipment, etc. Moreover, DIL possesses an established track record of operations since it was erstwhile managed by the management of Dynacons Systems & Solutions Limited (DSSL) which possesses a long track record in the IT infrastructure management & services.

Wide range of product & service offerings: DIL's portfolio includes a wide range of product & service offerings viz. servers, storages, networking, security & surveillance and energy management systems.

Comfortable capital structure and moderate debt coverage indicators: Given healthy tangible net-worth base with low reliance on debt, the capital structure of DIL stood comfortable. Further with the low debt levels coupled with moderate profitability, the debt coverage indicators stood moderate.

Key Rating Weaknesses

Relatively small scale of operations with moderately low profit margins: The scale of operations of DIL stood modest over FY13-FY16. Further, given predominantly trading nature of operations, the PBILDT margin stood moderately low in the range of 5%-7% over the aforementioned period.

Working capital intensive nature of operations with elongated operating cycle: The operations of DIL are working capital intensive in nature with majority of funds blocked in debtors and inventory. The company is required to extend a credit period of over 100-150 days to its customers, whereas is required to maintain a moderate level of inventory of over 50-70 days. Led by this, the operating cycle stood elongated in the range of 115-165 days over FY13-FY16.

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

Presence in competitive industry: DIL operates in a highly competitive industry with a large number of players engaged in providing the IT hardware products & services, which is evident from the moderately low profit margins and elongated collection period.

Analytical approach: Standalone

Applicable Criteria
CARE's Methodology for Short-term Instruments
CARE's Policy on Default Recognition
Criteria for placing rating on credit watch
CARE's Methodology for Service Sector Companies
Financial ratios (Non-Financial Sector)

About the Company
Incorporated in 2009 from the demerger of the group entity DSSL, DIL, [erstwhile Dynacons Technologies Limited (DTL)] is engaged in providing servers, storages, networking, security & surveillance and energy management systems. The company has tie-up with major technology leaders namely IRIS Computers Limited, Rashi Peripherals Private Limited, Redington India Limited, Sony India Private Limited for procuring hardware and software. At present, DIL's management comprises its directors Mr. Arun Govil, Mr. Harish Shetty, Mr. Parag Dalal, and Mr. G Chandrasekhar.
DIL is under the process of amalgamation with DTIPL, pursuant to which the name change from DTL to DIL took place. With regard to this, the entire business of DTIPL is proposed to be transferred to DIL, whereas the necessary transactions are expected to achieve closure in Q1FY18. For this, both the companies have received the necessary approvals from their respective boards, BSE and NSE, whereas the approvals from National Company Law Tribunal (NCLT)/ jurisdictional high court and shareholders & creditors are under process.
During FY16, the total operating income of the company stood at Rs.32.62 crore (vis-à-vis Rs.36.06 crore in FY15), whereas the PAT during the same year stood at Rs.0.39 crore (vis-à-vis Rs.0.10 crore in FY15).

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.*

Analyst Contact:
Name: Mr. Nitin Jha
Tel: 022-67543676
Email: nitin.jha@careratings.com

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About CARE Ratings:

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Disclaimer

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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
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	7.00	CARE A4+ (Under Credit watch with Developing Implications)

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.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	7.00	CARE A4+ (Under Credit watch with Developing Implications)	-	1)CARE A4+ (19-May-16)	-	-

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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