DuconInfratechnologies Limited

April 06, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	57.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	55.00	**CARE A4 (A Four)**	**Revised from CARE A4+ (A Four Plus) (Credit watch with Developing Implications)**
Total	**112.00 (Rupees One Hundred and Twelve crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of DuconInfratechnologies Limited (DIL), [the resulting company after transfer of business from Ducon Technologies (India) Private Limited (DTIPL), henceforth referred to as Ducon (on combined basis)] are constrained by low profit margins, working capital intensive nature of operations with stretched liquidity position and presence in competitive industry.

The ratings, however, derive strength from the experienced management in the industry, wide range of product & service offerings coupled with reputed clientele base, comfortable capital structure & moderate debt coverage indicators, and large scale of operations coupled with healthy order book position.

The ability of Ducon to improve profit margins amidst competitive industry, along with maintaining capital structure while improving the liquidity position with efficient working capital management is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low & fluctuating profit margins: The profit margins of Ducon stood low in the range of 3.50-4.50% over FY16-FY17 (refers to the period April 1 to March 31), given the turnkey nature of operations of DTIPL and trading nature of operations of DIL. Moreover, the same deteriorated in FY17 over FY16 owing to competitive pricing adopted by DTIPL to bag the government orders, whereas the margins are fluctuating in nature due to the competitive pricing offered.

Working capital intensive nature of operations: The operations of Ducon are working capital intensive in nature with a major amount of funds blocked in debtors, given the high credit period required to be extended to them, which is reflected in high gross current assets days of over 167 days in FY17. Given this, the cash credit utilization in the last 12 months ended February 2018 stood at almost full levels resulting stretched liquidity position.

Presence in competitive industry: Ducon operates in a highly competitive industry, wherein DTIPL is required to enter into competitive bidding to bag the orders from the government & other reputed government bodies, whereas DIL is engaged into trading which involves a large number of unorganized players.

Key Rating Strengths

Experienced management in the industry: The overall operations of Ducon are looked after by the directors – Mr. Harish Shetty and Mr. G. Chandrashekhar. Mr. Harish Shetty has more than two decades of industry experience across manufacturing and EPC sector and looks after financial control, reporting and planning. Moreover, Mr. G Chandrasekhar with more than 3 decades of experience, looks after business strategies, contract negotiations, and marketing presentations.

Wide range of product & service offerings: DIL caters to the need of reputed clients operating in the diverse end user industries, viz. IT & communications.

On the other hand, DTIPL caters to various reputed clients in oil & gas, petrochemicals, power, coal, steel, etc.

Comfortable capital structure & moderate debt coverage indicators: The capital structure of Ducon stood comfortable with the overall gearing ranging from 0.80-1.10 times over FY16-FY17, given moderate reliance on subordinated

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

unsecured loans from promoters. Given this, coupled with low profitability, the debt coverage indicators stood moderate over the same period.

Large scale of operations coupled with healthy order book position: The scale of operations of Ducon stood large with the total operating income ranging from Rs.330-400 crore over FY16-FY17. Given this, the tangible net-worth base also stood healthy. Moreover, the pending order book position as on December 31, 2017 stood at 0.95 times of the total operating income of FY17.

Analytical approach: Combined

Pursuant to the scheme of arrangement approved by the National Company Law Tribunal (NCLT) with regard to the transfer of business from DTIPL to DIL, CARE has combined the financial risk profile of DTIPL and DIL, in order to arrive at the ratings of Ducon.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Methodology for Short-term Instruments
CARE's Policy on Default Recognition
CARE Methodology for Manufacturing Companies
CARE's Methodology for Factoring Linkages in Ratings
Financial ratios (Non-Financial Sector)

About the Company

Incorporated in 2009 from the demerger of the group entity Dynacons Systems & Solutions Limited (DSSL), DIL, is engaged in trading of servers, storages, networking, security & surveillance and energy management systems. The company has tie-ups with major technology leaders for procuring hardware and software.

The NCLT, vide its order dated March 16, 2018, has approved the scheme of arrangement between DTIPL, demerged company and Ducon, resulting company wherein the entire business of the former is to be transferred to the latter (thereby making DIL as a resulting company) with effect from April 1, 2015, pursuant to which DTL's name got changed to DIL. DTIPL is engaged in providing turnkey solutions for setting up of Flue Gas Desulfurisation (FGD) systems (comprising 74.64% of the net sales in FY17 as against 80.20% in FY16), rural & urban electrification distribution systems (comprising 18.55% of the net sales in FY17 as against 14.49% in FY16) and the balance comprising bulk material handling systems. The FGD systems find application in various industries as a measure of industrial pollution control, wherein the sulphur dioxide is separated from the flue gas, whereas the bulk material handling systems find application in handling of materials viz. alumina, pet-coke and coal. The aforementioned products find application in various sectors viz. steel, power, cement, mining, petrochemicals, and many more.

Brief Financials DIL (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	32.62	40.82
PBILDT	2.30	3.07
PAT	0.39	0.65
Overall gearing (times)	0.27	0.26
Interest coverage (times)	2.29	2.86

A: Audited

Brief Financials Combined (Rs. crore)	FY16 (UA)	FY17 (UA)
Total operating income	336.95	399.05
PBILDT	15.03	15.90
PAT	6.41	7.61
Overall gearing (times)	1.07	0.87
Interest coverage (times)	1.84	2.28

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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	-	-	-	57.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	55.00	CARE A4

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.	Fund-based - LT-Cash Credit	LT	57.00	CARE B+; Stable	-	1)CARE A4+ (Under Credit watch with Developing Implications) (24-Apr-17)	1)CARE A4+ (19-May-16)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	55.00	CARE A4	-	-	-	-

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CIN - L67190MH1993PLC071691