

Press Release

Dynacons Systems and Solutions Limited

January 08, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 65.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.65.00 crore bank facilities of Dynacons Systems and Solutions Limited (DSSL). The outlook is '**Stable**'.

About the Company

Dynacons Systems & Solutions Limited (DSSL) is an IT infrastructure company providing systems integration, networking solutions, facility management services, security solutions, and software services. It has also partnered with various IT companies including Lenovo, Dell, HPE, HP, Cisco, IBM, Apple, Microsoft, Juniper and Red Hat. DSSL is headquartered in Mumbai and has 11 branch offices and warehouses with presence in more than 250 locations across India. The company also has a wholly owned subsidiary company in Singapore, handling Asia Pacific operations. The company is promoted by Mr. Shirish Anjaria, Mr. Dharmesh Anjaria and Mr. Parag Dalal and is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Analytical Approach

Acuite has considered the standalone financial and business risk profile of DSSL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

DSSL, incorporated in 1995, has an operational track record of over two decades in IT industry. Mr. Shirish Anjaria (Managing Director) is also the Founder of the Millennium PC, an initiative, which was recognized by Intel (USA). Mr. Parag Dalal (Director) has an experience in the field of Business, Information Technology, Software Development and Services. The directors of the company have an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of the management have helped the company develop healthy relationships with its customers and suppliers.

Acuite believes that DSSL will sustain its existing business profile on the back of an established track record of operations and experienced management.

- Consistent growth in operating income and profitability along with healthy order book position**

The operating income of DSSL has grown at a CAGR of 24.76 percent for the period FY2018-FY2020. The revenues increased to Rs. 327.95 crore in FY2020 from Rs. 303.72 crore in FY2019 and Rs.210.70 crore in FY2018. This is mainly on account of increased orders from existing as well as new customers. The company caters to reputed clientele such as LIC, Municipal Corporation of Greater Mumbai (MCGM), Central Bank of India, Reserve Bank of India (RBI), National Payments Corporation of India (NPCI) and Google India to name a few. Further, the revenues on Q-to-Q basis has been on an increasing trend in FY2021. The revenues for Q2FY2021 stood at Rs.93.21 crore as against Rs. 58.03 crore in Q1FY2021. Further, operating margins improved to 4.45 per cent in FY2020 from 3.91 per cent in FY2019. Profit after Tax margin has improved to 1.87 per cent in FY2020 from 1.38 per cent in FY2019. Acuite believes that the revenues are expected to improve on account of healthy order book position, which gives revenue visibility over near to medium term. It is also critical for the company to get repeat orders from its existing clients and from its new customers.

- **Healthy financial risk profile**

The financial risk profile of the company stood healthy marked by healthy net worth, debt protection metrics and coverage indicators. The net worth of DSSL stood at Rs.36.19 crore as on 31 March, 2020 as against Rs.30.73 crore as on 31 March, 2019. The gearing (debt-equity) improved to 0.97 times as on 31 March, 2020 from 1.15 times as on 31 March, 2019. The total debt outstanding of Rs.35.21 crore as on 31 March, 2020 mainly comprises of working capital borrowings of Rs.34.82 crore and Rs. 0.39 crore of long term debt. Further, the coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) of at 2.17 times for FY2020 and for FY2019. Debt to EBITDA stood at 2.09 times in FY2020 as against 2.71 times in FY2019.

Acuite believes that the financial risk profile of the company is expected to remain healthy backed by healthy net cash accruals and absence of any major debt funded capex in near to medium term.

Weaknesses

- **Moderate working capital operations**

The company has moderate working capital operations marked by Gross Current Assets (GCA) of 106 days for FY2020 as against 90 days for FY2019. The debtors increased to 93 days for FY2020 as against 69 days for FY2019. The inventory level stood low at 10 days for FY2020 as against 21 days for FY2019. Further, the average bank limit utilization stood at ~68 percent for the past six months ended in November, 2020.

Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

- **Competitive and fragmented industry**

DSSL is exposed to intense competition from several other small scale and large scale IT enabled solution providers.

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.14 crore for FY2020 while its maturing debt obligations were Rs.0.50 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8.00 to 11.00 crore during 2021-23 against no expected repayment obligation. The company's working capital operations are comfortable marked by gross current asset (GCA) days of 106 days for FY2020. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on 31 March 2020. The current ratio stands at 1.25 times as on 31 March 2020.

Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that DSSL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	327.95	303.72
Profit after tax (PAT)	Rs. Crore	6.12	4.19
PAT margin	%	1.87	1.38
Total debt / Tangible Net worth	Times	0.97	1.15
PBDIT / Interest	Times	2.17	2.17

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Nov-2019	Cash Credit	Long Term	35.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
13-Sept-2019	Cash Credit	Long Term	35.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Upgraded from ACUITE A3)
05-Jul-2019	Cash Credit	Long Term	35.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Available	Not Applicable	Not Applicable	35.00	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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