

Press Release

Deccan Sales and Services Private Limited

28 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 30.00 crore bank facilities of Deccan Sales & Services Private Limited (DSSPL). The outlook is '**Stable**'.

Deccan Sales & Services Private Limited was established as a proprietorship firm in 1996 by Mr. R.S. Patil and later converted as a private limited company in 2007. The company is an authorized dealer of Cummins India Limited for selling of spare parts. In addition, DSSPL is an authorized dealer L&T Construction Limited and Komatsu India Private Limited for sales & services of earthmoving equipment spares parts. DSSPL is currently operating in 7 spares cum service centers in Indore (Madhya Pradesh), Surat, Baroda, Ahmedabad and Vapi (Gujarat).

Key Rating Drivers

Strengths

Experienced management and long track record of operations

DSSPL is promoted by Mr. R. S. Patil who has over a decade of experience as an authorized dealer of Cummins India Limited. The company started its operation in Indore and over the years has expanded its presence in Surat, Baroda and Vapi. Mr. R.S. Patil over the years has associated with L&T Construction Limited and Komatsu India Private Limited for sales & services of earthmoving equipment spares parts. In addition, Mr. Patil has promoted Deccan Vehicles Private Limited – an TATA's Authorized Service Station (TASS) for Repair & Maintenance of Telco's HCV's & LCV's in Indore (since-1998) & Baroda (since-2007).

Established relationship with OEMs

The company is an authorized dealer for spares and services of power engines manufactured by Cummins India Limited for Indore, Baroda, Surat & Vapi. DSSPL became an authorized dealer of Cummins India Limited since 2004 only at Indore. Over the years, Cummins India Limited has awarded additional territory in Baroda, Surat & Vapi. In 2006, the company started sales & services of earthmoving equipment manufactured by L&T Construction Limited and Komatsu India Private Limited in Ahmedabad which expended to Surat & Bhuj subsequently. In addition the company is a C&F and agent/ distributor of Volvoline Engine Oils in Western M.P., Baroda, Surat & Vapi and authorized Distributor for Elgi Equipment's Limited for Indore & Baroda.

Improvement in scale of operations

The scale of operations has improved to Rs 114.39 crs in FY 17 as against Rs 86.67 crs in FY 15 thereby registering a cumulative annual growth rate (CAGR) of 14.88 per cent during the last 2 years. During the current year till 20th January'18 the company has booked revenue of Rs 114.49 crs (Provisional).

Weaknesses

Moderate financial risk profile

DSSPL's financial risk profile is marked by moderate net worth base, gearing and debt protection metrics. The net-worth base of the company stands at Rs 17.28 crs in FY 2017 as against Rs 16.29 crs in FY 2016. While arriving at the net-worth, SMERA has considered unsecured loan from directors/promoters of Rs 7.05 crs as quasi equity based on an undertaking received from the management to maintain the same over the medium term and the same is also subordinated to bank debt. The gearing stood at 1.36 times in FY 17 as against 1.23 times in FY16. The total debt of Rs 23.56 crs as on 31st March'17 consists of Rs 1.16 crs of term loans and Rs 22.39 crs of working capital facility. The debt protection metrics stands moderate with interest coverage and debt service coverage ratios of 1.60 times and 1.34 times respectively in FY2017 as compared to 1.47 times and 1.25 times respectively in FY2016.

Working capital intensive operation

DSSPL operations are working capital intensive in nature marked by Gross Current Days (GCA) days of 204 in FY 17 as against 184 days in FY 16. The high GCA days are on account of debtor days of 113 in FY 17 as against 104 days in FY 16. The high debtor days is on account of 18 per cent of annual sales for FY 2016-17 and FY 2015-16 being booked in the month of March against which the company provides credit of 30-60 days to its customers. Inventory days stood at 85 in FY 17 as against 71 days in FY 16.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of DSSPL.

Outlook: Stable

SMERA believes that the outlook on DSSPL will remain stable over the medium term on account of the experienced management and its established relation with the OEM's. The outlook may be revised to 'Positive' in case of its ability to further increase its scale of operations and sustainability of its profitability and further improvement in the financial risk profile. The outlook may be revised to 'Negative' in case the company fails to increase its scale of operations or deterioration in the profitability and any deterioration in the financial risk profile would lead to 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	114.39	108.69	86.67
EBITDA	Rs. Cr.	6.01	5.85	5.11
PAT	Rs. Cr.	0.98	0.69	0.46
EBITDA Margin	(%)	5.25	5.38	5.90
PAT Margin	(%)	0.85	0.63	0.53
ROCE	(%)	14.09	14.09	25.30
Total Debt/Tangible Net Worth	Times	1.36	1.23	1.32
PBDIT/Interest	Times	1.60	1.47	1.45
Total Debt/PBDIT	Times	3.74	3.32	3.63
Gross Current Assets (Days)	Days	204	184	184

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

None

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.smera.in/criteria-default.htm>
- Trading Entities -<https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	SMERA BB+/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB+/ Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB+/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4+

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