

Press Release

Deccan Sales and Services Private Limited

July 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.44.75 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (read as ACUITE triple B) from '**ACUITE BBB-**' (read as ACUITE triple B minus) and the short term rating to '**ACUITE A3+**' (read as ACUITE A three plus) from '**ACUITE A3**' (read as ACUITE A three) on the Rs.44.75 crore bank facilities of Deccan Sales & Services Private Limited (DSSPL). The outlook is '**Stable**'.

Reason for revision in rating

The upgrade in rating is on account of continuous growth in revenue along with improvement in profitability margin, and financial risk profile of the company. The revenues have grown at a CAGR of ~15 per cent from FY2017-2021. The revenues of the company stood at Rs.201.50 crore in FY2021 (Prov.) as against Rs.199.80 crore in FY2020 and Rs.195.45 crore in FY2019. EBIDTA margins stood at 5.54 percent in FY2021 (Prov.) as against 4.15 percent in FY2020 and 3.85 percent in FY2019. Also, PAT margins improved and stood at 2.04 percent in FY2021 (Prov.) against 1.27 percent in FY2020 and 1.33 percent in FY2019.

About the Company

DSSPL is an Indore based company, established as a proprietorship firm in 1996 by Mr. Ratiram Patil and later converted as a private limited company in 2007. Mr. Ratiram Patil, Managing Director, is a mechanical engineer & has more than 3 decades of experience in the similar line of business. The company is an authorized dealer of Cummins India Limited, L&T Construction Limited, BK Tyres, Valvoline Inc., Mahindra & Mahindra, Komatsu India Private Limited, Wipro Water equipment, Chicago Pneumatic & Elgi Equipment. The company is currently operating in 7 spares cum service centers in Indore (Madhya Pradesh), Surat, Baroda, Ahmedabad and Vapi to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management.**

DSSPL was established as a proprietorship firm in 1996 by Mr. Ratiram Patil and later converted as a private limited company in 2007. DSSPL is being managed by Mr. Ratiram Sitaram Patil, Mr. Manikrao Patil, and CEO Mr. Praveen Yadav who possess extensive experience of more than three decades. Promoters are well supported by second line of generation, Mr. Deepak Patil, Mr. Prashant Ratiram Patil. The extensive experience of the promoters has helped DSSPL to establish healthy relations with Original Equipment Manufacturers (OEMs) and market position in local market.

Acuité believes that the company will continue to benefit from its established track record of operations and experienced management

- **Improving scale of operations and profitability margins**

DSSPL has registered turnover of Rs.201.50 crore in FY2021 (Prov.) as against Rs.199.80 crore in FY2020 and

Rs.195.49 crore in FY2019. The growth is mainly supported by addition of new territories to cater every year. Also, Operating margins improved and stood at 5.54 percent in FY2021 (Prov.) as against 4.15 percent in FY2020 and 3.85 percent in FY2019. The PAT margins stood at 2.04 percent in FY2021 (Prov.) against 1.27 percent in FY2020 and 1.33 percent in FY2019.

• **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate net worth, moderate gearing (debt to equity ratio) and healthy debt protection metrics. The net worth of DSSPL is moderate at around Rs.25.65 crores (includes quasi equity of Rs.3.30 crore) as on 31 March, 2021 (Prov.) as against Rs.21.54 crore (includes quasi equity of Rs.3.30 crore) as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves and quasi equity of Rs.3.30 crore as on 31 March, 2021 (Prov.). Gearing is moderate at 1.36 times as on 31 March, 2021 (Prov.) as against 1.80 times as on 31 March, 2020. The total debt of 34.95 crore as on 31 March, 2021 (Prov.) consists of long term debt of Rs.7.96 crore, short term debt of Rs.25.50 crore and unsecured loans from promoters of Rs.1.76 crore. TOL/TNW stood at 2.66 times as on 31 March, 2021 (Prov.) as against 3.82 times as on 31 March, 2020. Debt protection metrics are healthy marked by interest coverage ratio and DSCR stood at 2.85 times and 1.52 times in FY2021 (Prov.) as against 2.17 times and 1.56 times for FY2020 respectively.

Acuité believes that the financial risk profile of the firm is expected to remain at the same level over the medium term.

Weaknesses

• **Working capital intensive operations**

The operations of the firm are working capital intensive operations marked by Gross Current Asset (GCA) days of 143 days in FY2021 (Prov.) as against 153 days in FY2020. High GCA days are due to high receivables period of 69 days in FY2021 (Prov.) as against 63 days in FY2020. Inventory days stood at 51 days in FY2021 (Prov.) as against 77 days in FY2020. The average bank limit utilization remained high at around 80 percent for the past trailing 6 months ended May 2021.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

• **Highly fragmented and competitive industry**

DSSPL operates in a highly competitive and fragmented industry characterised by large number of players. Further, its current profitability remains modest, given the low value-added nature of trading business and competition from dealers for other manufacturers in the segment.

Rating Sensitivities

- Significant improvement in operating performance.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

DSSPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.55-5.90 crore during the last three years through 2019-2021, while its maturing debt obligations in the range of Rs.1.03-2.60 crore over the same period. The working capital operations of the company are intensive marked by gross current asset GCA days of 143 days in FY2021 (Prov.) as against 153 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.8.68 crore as on March 31, 2021 (Prov.). The current ratio stands at 1.29 times as on March 31, 2021 (Prov.). The average bank limit utilization stood high at around 80 percent for the last 6 months ended May 2021.

Outlook: Stable

Acuité believes that the firm will continue to maintain a 'Stable' outlook over near to medium term

owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	201.50	199.80
PAT	Rs. Cr.	4.12	2.55
PAT Margin	(%)	2.04	1.27
Total Debt/Tangible Net Worth	Times	1.36	1.80
PBDIT/Interest	Times	2.85	2.17

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
05-May-2020	Term Loan	Long Term	1.90	ACUITE BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	31.50	ACUITE BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A3 (Reaffirmed)
	Proposed Term Loan	Long Term	0.35	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	1.00	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
18-Feb-2019	Term Loan	Long Term	0.75	ACUITE BBB-/ Stable (Upgraded)
	Cash Credit	Long Term	24.00	ACUITE BBB-/ Stable (Upgraded)
	Bank Guarantee	Short Term	6.00	ACUITE A3 (Upgraded)
	Proposed Term Loan	Long Term	1.50	ACUITE BBB-/ Stable (Assigned)
	Proposed Cash Credit	Long Term	8.50	ACUITE BBB-/ Stable (Upgraded)
	Proposed Bank Guarantee	Short Term	4.00	ACUITE A3 (Upgraded)

28-Mar-2018	Cash Credit	Long Term	23.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A4+ (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE BB+/ Stable (Assigned)
	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Jan-2017	8.15	Jan-2022	1.05	ACUITE BBB/Stable (Upgraded from ACUITE BBB-)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE BBB/Stable (Upgraded from ACUITE BBB-)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE BBB/Stable (Upgraded from ACUITE BBB-)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Upgraded from ACUITE A3)

*Overdraft of Rs.2.00 crore interchangeable with Bank Guarantee

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in
Vishal Kotian Analyst – Rating Operations Tel: 022 49294064 vishal.kotian@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.