

Press Release

Deccan Sales and Services Private Limited

October 19, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A3+ Reaffirmed
Bank Loan Ratings	34.75	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	44.75	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 Rs.44.75 crore bank facilities of Deccan Sales and Services Pvt Ltd (DSSPL). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation factors in the established market position of the company, reputed clientele and extensive experience of the promoters of more than three decades in the industry. The rating also factors the stagnant operating performance of the company over the last four years despite the onset of covid-19 pandemic, moderate financial risk profile and adequate liquidity position of the company. However, the rating is constrained by intensive nature of working capital operations and intense competition marked by fragmented nature of the industry.

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

Acuite has considered a standalone approach to arrive at the rating of Deccan Sales And Services Pvt Ltd (DSSPL)

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. Further, the extensive experience of the promoters is reflected in the stable growth of 12.26 percent in the revenue. Revenue of the company stood at Rs. 223.35 crore in FY22 as against Rs.198.95 crore in FY21. However the EBITDA margins have declined to 4.90 percent in FY22 as against 5.61 percent in FY21.

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

Sales and Profitability

DSSPL has recorded a healthy growth of 12 percent in its revenue. The company recorded revenue of Rs. 223.35 crore in FY22 (Prov.) as against 198.95 crore in FY21. Such growth comes at the back of general increase in demand for products. EBITDA margins of the company declined by 70.22 bps. EBITDA margin stood at 4.90 percent in FY22 (Prov.) as against 5.61 percent in FY21. EBITDA in absolute terms also declined marginally at Rs. 10.95 crore in FY22 (Prov.) as against Rs. 11.15 crore in FY21. Such decline is on account of increased travel and selling and distribution expenses post covid. PAT margins stood at 2.31 percent in FY22 (Prov.) as against 1.91 percent in FY21.

Moderate Financial Risk Profile

Financial risk profile of the company is moderate with moderate network, moderate gearing and comfortable debt protection metrics. Tangible network of the company stood at Rs.26.82 crore as on 31st March 2022 (Prov.) as against Rs.22.14 crore as on 31st March 2021. Improvement in network is on account of increased accretion of profit to reserves. Gearing of the company stood at 1.66 times as on 31st March 2022 (Prov.) as against 1.87 times as on 31st March 2021. The gearing has improved from its peak gearing of 2.31 times as on 31st March 2020. TOL/TNW stood at 2.97 times as on 31st March, 2022 (Prov.) as against 3.26 times as on 31st March, 2022. NCA/TD stood at 0.16 times as on 31st March 2022 (Prov.) as against 0.14 times as on 31st March 2021. Debt protection metrics remains comfortable with DSCR at 1.53 times in FY22 (Prov.) as against 1.43 times in FY21. Interest coverage ratio (ICR) stood at 3.20 times in FY22 as against 2.48 times in FY21.

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

Working capital operations of the company are intensive with GCA days of 144 days in FY22 (Prov.) as against 140 days in FY21. GCA days are driven by inventory holding period and debtor collection period. Credit period offered by the company is different for different customers and ranges from 30-60 days. Debtor collection period stood at 69 days in FY22 as against 67 days in FY21. Inventory holding period stood at 57 days in FY22 (Prov.) as against 56 days in FY21.

Acuité believes that the working capital operations of the company will remain moderate over the medium term and will continue to remain a key rating sensitivity.

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: Adequate

Liquidity of the company is adequate with sufficient net cash accruals as against debt repayment obligations. Net cash accruals of the company stood at Rs.6.95 crore as against debt repayment obligation of Rs. 3.25 crore in FY22 (Prov.). Net cash accruals of the company is likely to remain comfortable to meet its debt service obligation. Net cash accruals are expected to remain in the range of Rs.9.95-11.69 crore as against debt repayment obligations of Rs. 2.74-3.00 crore in the near to medium term. Bank limit utilisation remained high at 85.20 percent for 6 months ended. The company maintained unencumbered cash balance of Rs.4.89 crore as on 31st March 2022 (Prov.).

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that the company 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 company achieves higher than expected growth in revenues and improvement in profitability level and margins, 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	223.35	198.95
PAT	Rs. Cr.	5.15	3.81
PAT Margin	(%)	2.31	1.91
Total Debt/Tangible Net Worth	Times	1.66	1.87
PBDIT/Interest	Times	3.20	2.48

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria->

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Jul 2021	Bank Guarantee	Short Term	9.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	31.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	1.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	1.05	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	2.20	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
05 May 2020	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)
	Cash Credit	Long Term	31.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.90	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 from ACUITE BB+ Stable)
	Cash Credit	Long Term	24.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	6.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Term Loan	Long Term	1.50	ACUITE BBB- Stable (Assigned)
	Proposed Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Bank Guarantee	Short Term	4.00	ACUITE A3 (Upgraded from ACUITE A4+)
28 Mar 2018	Cash Credit	Long Term	23.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB+ Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.76	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	8.15	Not available	0.49	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 deepti.bhandarkar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.