



Press Release
DECCAN SALES AND SERVICES PRIVATE LIMITED
January 17, 2024
Rating Reaffirmed

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

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 rating reaffirmation

The rating reaffirmation takes into account improvement in operating and financial performance DSSPL marked by improvement in operating income, operating margins and moderate financial risk profile. The company's revenue stood at Rs.273 Cr in FY2023 as against Rs.223 Cr in FY2022 which is a growth of ~22 percent achieved based on increase in the overall sales of products and increase in contribution from after sale services. The operating margins stood at 4.53 percent in FY2023 as against 4.37 percent in FY2022. The rating also draws comfort from the company's experienced management with an established track record of operations and moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. The rating is however constrained due to moderately intensive working capital operations and high competition risk. Going forward, ability of DSSPL to sustain the improved operating performance while improving and maintaining an efficient working capital cycle will remain key rating sensitivity factors.

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.

Unsupported Rating

Not Applicable

Analytical Approach

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

Strengths

Experienced management and established track record of operations

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 and Mr. Prashant Ratiram Patil. The extensive experience of the promoters has helped DSSPL to establish a healthy relationship with various Original Equipment Manufacturers (OEMs).

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

Moderate financial risk profile

Financial risk profile of DSSPL is moderate marked by moderate net worth, low gearing and moderate debt protection metrics. The tangible net-worth of the company stood improved at Rs.37 Cr as on 31 March, 2023 as against Rs.32 Cr as on 31 March, 2022 due to accretion of profits to reserves. It also includes the unsecured loans from directors of Rs.5 Cr been treated as quasi equity since they are subordinated to the bank borrowings. The gearing (debt-equity) therefore stood improved at 1.04 times as on 31 March, 2023 as against 1.23 times as on 31 March, 2022. The total debt of Rs.38 Cr as on March 31, 2023 comprises of long term bank borrowings of Rs.10 Cr and the short term bank borrowings of Rs.28 Cr. The gearing is expected to improve further and remain low over the medium term in the absence of any significant debt-funded capex plan.

The interest coverage ratio and DSCR stood moderated at 3.16 times and 1.37 times for FY2023 as against 3.30 times and 1.39 times for FY2022. The Net Cash Accruals to Total debt stood at 0.17 times for FY2023 as against 0.15 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 2.05 times for FY2023 as against 2.26 times for FY2022. The Debt-EBITDA ratio stood improved at 2.82 times for FY2023 as against 3.55 times for FY2022.

Acuité believes that the financial risk profile of DSSPL is expected to remain moderate over the medium term due to its moderate debt levels vis-à-vis moderate tangible net worth and moderate debt protection metrics.

Improved operating performance

The revenue of DSSPL stood improved at Rs.273 Cr in FY2023 as against Rs.223 Cr in FY2022 which is a growth of ~22 percent achieved based on increase in the overall sales and providing after sale services. The operating margin of the company also stood improved at 4.53 percent in FY2023 as against 4.37 percent in FY2022, however the net profit margin of the company stood decline at 1.84 percent in FY2023 as against 2.00 percent in FY2022 due to an increase in the interest cost during the year. For the current year as of December 2023, DSSPL has achieved revenue of ~Rs.237 Cr as against Rs. during the same period in FY2023 and is further expected to achieve revenue of ~Rs.300 Cr by the year end.

Acuité believes that the ability of DSSPL to achieve a sustainable operating performance will remain a key rating sensitivity factor.

Weaknesses

Moderately working capital intensive operations

The working capital operations of DSSPL are moderately intensive marked by its Gross Current Assets (GCA) of 120 days for FY2023 which stood improved as against 137 days for FY2022. This is due to its receivables cycle which stood improved at 51 days for FY2023 as against 62 days for FY2022. On the other hand, the inventory cycle of the company stood at 56 days for FY2023 as against 57 days for FY2022. The creditors cycle of the company also stood improved at 42 days for FY2023 as against 49 days for FY2022. The average bank limit utilization for 6 months' period ended November 2023 however stood high at ~94 percent.

Acuité believes that the ability of DSSPL to improve maintain an efficient working capital

cycle over the medium term will remain a key rating sensitivity factor.

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

- Ability to sustain the improved operating performance
- Elongation in working capital cycle

Liquidity Position - Adequate

DSSPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.6 Cr to Rs.7 Cr during FY2021 to FY2023 against its debt repayment obligation in the range of Rs.3 Cr to Rs.4 Cr during the same period. Going forward, the NCA are expected in the range of Rs.8 Cr to Rs.10 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.2 Cr to Rs.4 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 120 days for FY2023. The average bank limit utilization for 6 months' period ended November 2023 stood high at ~94 percent. Current ratio stands at 1.39 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.4 Cr in FY2023.

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

Outlook: Stable

Acuité believes that DSSPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	273.07	222.86
PAT	Rs. Cr.	5.03	4.45
PAT Margin	(%)	1.84	2.00
Total Debt/Tangible Net Worth	Times	1.04	1.23
PBDIT/Interest	Times	3.16	3.30

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Oct 2022	Proposed Bank Facility	Long Term	2.76	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	0.49	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	31.50	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A3+ (Reaffirmed)
30 Jul 2021	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)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	34.65	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	30 Jun 2024	Simple	0.10	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@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.

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