

Press Release

Designtech Systems Limited (DSL)

04 April, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.50.00 Cr.
Long Term Rating	SMERA Provisional A- (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA Provisional A- (SO)**' (read as **SMERA provisional A minus structured obligation**) to the Rs. 50.00 crore Proposed Term Loan (TL) of Designtech Systems Limited (DSL). The outlook is 'Stable'.

The rating on the Rs. 50.00 crore proposed term loan is provisional and the final rating is subject to the finalisation and vetting of the following documents by SMERA:

- Final sanction letter

The provisional rating is valid for 90 days and SMERA reserves the right to alter/modify/withdraw the rating any time prior to 90 days, if such an action is deemed fit.

Designtech Systems Limited (DSL) was incorporated in February 1998 and is promoted by Mr. Mr. Vikas Khanvelkar and Mr. Sachin Chougule. The company is a product distributor of CAD software in India for many leading companies like Siemens Industry Software, Altair Engineering etc. The company also is into product design and engineering services and is an authorized training partner for CAD and CAE software and caters to various government departments as well as private players.

Key rating drivers

Strengths

Structured payment mechanism in the form of build-up of margin money

DSL has undertaken a project from Karnataka Government of Rs. 209.32 crore which will be funded through the term loan of Rs. 50.00 crores, promoter's contribution of Rs. 44.85 crore and credit from the suppliers of Rs. 84.47 crore. The term loan is expected to be availed by the company in the month of April 2018 and will be repaid through a bullet payment in the month of December 2018. In the interim the company proposes to build up reserves in a phased manner starting from July 2018 of Rs. 10.00 crore every month. The reserve money so built up will be utilised to meet the debt obligation with regards to term loan. The reserve will be created in the form of fixed deposits or any other liquid debt mutual fund. Further in case the company do not receive payment from Karnataka Government against invoice raised, DSL will apply for cash credit limit to the extent of Rs.25.00 crore. SMERA's rating factors in the strict adherence to the timely build-up of the reserves.

Established track record of operations and experience management:

The promoter of the company Mr. Vikar Khanvelkar has an experience of around three decades in the information technology industry. The board of directors comprises of highly qualified and experienced personnel, which has helped the company to expand in the past 20 years of its incorporation. Further the revenue of the company has been grown in the past three years with CAGR of around 51 percent. The company has a strong track record of its operations of 20 years in providing technological excellence in the domain of CAD/CAM/CAE & PLM thereby bringing more than 2200 customers under its base.

Diversified Geographic presence:

The company provides its services in the South, North as well as Western region of India. They have 10 offices located in these regions along with the offices internationally in USA, Hong Kong, Singapore, Malaysia and Germany.

Diversified product range and alliance with top brands

DSL is a leading distributor for major companies like Siemens Industry Software, Altair Engineering, MathWorks and Stratasys. The company is product distributor of Siemens PLM/ Industry products. It offers CAD/ CAM/ CAE/ PLM Solutions; Stratasys 3D Printers, SLM 3D Printers, Solidscape 3D Printers; engineering services to various sectors such as Aerospace and defence, Automotive, Electromechanical and consumer goods, Heavy Engineering, Industrial Machinery, Power and energy, Interactive Technical Documentation etc.

Healthy financial risk profile of the company

DSL has healthy financial risk profile marked by moderate networth, low gearing and healthy debt protection metrics. The networth of the company has remained moderate at Rs. 36.69 crore as on 31st March, 2017 as against Rs. 18.32 crore as on 31st March, 2016 and Rs.12.93 crore as on 31st March, 2015. The increase in networth is on account of healthy accretion to reserves of Rs.23.76 crores over the last 3 years. The peak gearing of the company stood at 0.59 times as on 31st March, 2015, however it is declined to 0.05 times as on 31st March, 2017 on account gradual repayment of term loans. The debt of Rs. 1.72 crores as on March 31, 2017 comprises of term loans of Rs. 1.10 crore. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.91 times as on 31st March, 2017 as against 19.81 times as on 31st March, 2016.

The Interest Coverage Ratio (ICR) stood at 78.43 times for FY2017 as against 27.26 times in FY2016 and 16.56 times for FY2015. The Debt Service Coverage Ratio (DSCR) stood at 20.79 times for FY2017 as against 1.45 times in FY2016 and 12.55 times in FY2015. The Net Cash Accruals/Total Debt (NCA/TD) stood at 12.27 times as on 31st March, 2017 as against 3.25 times as on 31st March, 2016.

Association with Government agencies

DSL has been associated with various government agencies like Karnataka State Government, Tamil Nadu State Government, Jharkhand Government, and Ministry of Shipping. Although, risk associated with delayed payment exist but due to due to long standing relationships and excellent past track record of the company, coupled with extensive experience of the promoters, DSL managed to collect payments within 60-90 days from the completion of projects.

Weaknesses

Dependency on government regulatory for decision making and high correlation with state budget

The regular functioning for establishment of Excellence Centre is highly dependent on the legislative policies framed by the government bureaucrats which lead to delay in the decision making process causing complexity in the day to day operations. Excellence Centre is a strategic organization, funded by the state government; and is highly dependent upon budgetary allocations.. The budgetary policies set for the state depends upon the state's economic condition which are variable due to several empirical factors. Therefore, the funding may differ on a yearly basis.

Analytical approach:

SMERA has considered the structured payment mechanism and the stand alone credit profile of DSL to arrive at the rating.

Outlook – Stable

SMERA believes that DSL will continue to benefit over the medium term from its promoters' extensive industry experience and its healthy financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained improvement in the company's scale of operations, while it maintains its profitability and healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' if DSL's revenue and profitability decline or if its financial risk profile weakens, most likely because of a stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	452.67	201.34	197.78
EBITDA	Rs. Cr.	24.89	7.96	8.27
PAT	Rs. Cr.	19.87	6.24	5.66
EBITDA Margin	(%)	5.50	3.95	4.18
PAT Margin	(%)	4.39	3.10	2.86
ROCE	(%)	107.09	54.00	87.59
Total Debt/Tangible Net Worth	Times	0.05	0.13	0.59
PBDIT/Interest	Times	78.43	27.26	16.56
Total Debt/PBDIT	Times	0.05	0.19	0.76

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Service Entities - <https://www.smera.in/criteria-service.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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>

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

None

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 (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA Provisional A- (SO)/ Stable

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ABOUT SMERA

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