

Press Release

Designtech Systems Limited

February 14, 2019



Rating Reviewed

Total Bank Facilities Rated*	Rs.50.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Negative
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned 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 the Rs.50.00 crore bank facilities of Designtech Systems Limited (DSL). The outlook is '**Negative**'.

Acuité has withdrawn long term rating of '**ACUITE Provisional A- (SO)**' (**read as ACUITE provisional A minus structured obligation**) to the Rs.50.00 crore proposed term loan of Designtech Systems Limited (DSL).

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the DSL to arrive at this rating.

Key Rating Drivers

Strengths

- **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. 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**

DSL has healthy financial risk profile marked by tangible net worth of Rs. 44.09 crore as on 31st March, 2018 as compared to Rs. 36.69 crore as on 31st March, 2017. The gearing stood at 0.01 times as on 31st March, 2018 as against 0.05 times as on 31st March, 2017. The Interest Coverage Ratio (ICR) stood at 59.60 times for FY2018 as against 78.43 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 11.94 times for FY2018 as against 20.79 times in FY2017. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.79 times as on 31st March, 2018 as against 2.91 times as on 31st March, 2017. The Net Cash Accruals/Total

Debt (NCA/TD) stood at 22.49 times as on 31st March, 2018 as against 12.27 times as on 31st March, 2017.

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.

- Decline in the revenue and elongated working capital**

The revenue of the company has declined from Rs.452.67 crore in FY2017 to Rs.295.71 crore in FY2018. The decline in the revenue is majorly on account of delay in the project execution of Karnataka government. Further the gross current asset increased from 58 days in FY2017 to 161 days in FY2018. Inventory and debtor are also increased to 60 days and 89 days from 21 days and 33 days respectively.

Liquidity Position:

DSL has moderate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.62 crore to Rs.10.53 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.63 crore as on 31 March 2016 and 0.09 crore as on 31 March 2018. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 161 in FY 2018 as compared to 58 in FY 2017. The cash credit limit in the company remains utilized at 70-80 percent during the last 3 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.8.41 crore as on March 31, 2018. The current ratio of the group stands at 1.26 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account elongation in working capital.

Outlook: Negative

Acuité believes that the DSL's credit profile will be impacted by significant moderation in the operating performance along with elongated working capital cycle over near to medium term. The rating may be downgraded in case of continued deterioration in operating performance and further elongation in working capital. Conversely, the outlook may be revised to 'Stable' if the company demonstrates significant growth in revenue while efficiently managing its working capital cycle and keeping the debt levels moderate.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	295.71	452.67	201.34
EBITDA	Rs. Cr.	12.73	24.89	7.96
PAT	Rs. Cr.	8.31	19.87	6.24
EBITDA Margin	(%)	4.31	5.50	3.95
PAT Margin	(%)	2.81	4.39	3.10
ROCE	(%)	37.54	107.09	54.00
Total Debt/Tangible Net Worth	Times	0.01	0.05	0.13
PBDIT/Interest	Times	59.60	78.43	27.26
Total Debt/PBDIT	Times	0.03	0.05	0.19
Gross Current Assets (Days)	Days	161	58	223

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-17.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-8.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-April-2018	Term Loan	Long Term	50.00	ACUITE Provisional A- (SO)/ Stable (Assigned)

*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	ACUITE Provisional A- (SO) (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB /Negative(Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ /Stable (Assigned)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB /Negative(Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Vishal Choudhary Manager - Rating Operations Tel: 022-49294021 vishal.choudhary@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings 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.