

Press Release

Dynacons Systems And Solutions Limited

September 13, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 55.00 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

Acuite has upgraded the long-term rating to '**ACUITE BBB' (read as ACUITE triple B)** from '**ACUITE BBB-' (read as ACUITE triple B minus)** and short-term rating to '**ACUITE A3+' (read as ACUITE A three plus)** from '**ACUITE A3' (read as ACUITE A three)** on the Rs. 55.00 crore bank facilities of DYNACONS SYSTEMS AND SOLUTIONS LIMITED (DSSL). The outlook is '**Stable**'.

The upgrade in the rating is on account of consistent growth in operating income with CAGR of 35 per cent for the period FY2016-FY2019. Also, revenues have shown a growth on quarterly basis marked by Rs. 88.25 crore in Q1-FY2020 as compared to Rs. 68.79 crore in Q4-FY2019 and Rs. 85.80 crore in Q1FY2019. Further, the profitability is continuously improving as reflected in operating margins of 3.91 per cent in FY2019 as against 3.16 per cent in the previous year and net margins improved to 1.38 per cent in FY2019 as against 0.90 per cent in FY2018. Acuite believes that the company will maintain the growth on account of orders in hand of Rs. 859.01 crore (including Rs. 473.00 crore at L1 Level) showing the revenue visibility over near to medium term. In addition to growing revenues and profitability, the company is able to efficiently manage its working capital operations marked by Gross Current Asset (GCA) days of 90 days for FY2019.

Dynacons Systems & Solutions Limited (DSSL) is an IT infrastructure company providing systems integration, networking solutions, facility management services, security solutions, and software services. It has also partnered with various IT companies including Lenovo, Dell, HPE, HP Inc, Cisco, IBM, Apple, Microsoft, Juniper and Red Hat. DSSL is headquartered in Mumbai and has 11 branch offices and warehouses with presence in more than 250 locations across India. The company also has a wholly-owned subsidiary company in Singapore, handling Asia Pacific operations. The company is promoted by Mr. Shirish Anjaria, Mr. Dharmesh Anjaria and Mr. Parag Dalal and is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Dynacons Systems and Solutions Limited to arrive at the rating.

Key Rating Drivers

Strengths

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

Mumbai-based, DSSL was incorporated in 1995; thus, the company has an operational track record of over two decades in the IT industry. Mr. Shirish Anjaria, Managing Director, is also the Founder of Millennium PC, an initiative that was recognized by Intel (USA). Mr. Parag Dalal (Director) has an experience in the field of Business, Information Technology, Software Development and Services. Further, Mr. Dharmesh Anjaria (Director) is a Chartered Accountant & Cost Accountant and has completed his Cisco and Intel certifications. The directors of the company have an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of the management have helped the company develop healthy relationships with its customers and suppliers. Acuite believes that DSSL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Consistent growth in operating income and healthy order book position**

The operating income of DSSL has grown at a CAGR of 35 per cent for the period FY2016-FY2019. The revenues increased to Rs. 303.72 crore in FY2019 from Rs. 210.70 crore in FY2018, Rs. 158.29 crore in FY2017 and Rs. 124.18 crore in FY2016. This is mainly on account of increased orders from existing as well as new customers. The company caters to reputed clientele such as LIC, Municipal Corporation of Greater Mumbai (MCGM), Central Bank of India, Reserve Bank of India (RBI), National Payments Corporation of India (NPCI) and Google India to name a few. Further, the revenues on Q-to-Q basis has been on a declining trend in FY2019. However, the company has shown growth in revenues and registered revenues of Rs. 88.25 crore in Q1FY2020 as against Rs. 68.79 crore in the previous quarter (Q4FY2019). Acuite believes that the revenues are expected to improve on account of healthy order book position of Rs. 386.01 crore, which are to be executed in next 1-2 years; hence giving a revenue visibility over near to medium term. Also, Rs. 473.00 crore of orders are at L1 Level.

- **Healthy financial risk profile**

The financial risk profile of the company stood healthy marked by healthy net worth, debt protection metrics and coverage indicators. The net worth of DSSL stood at Rs. 30.73 crore as on 31 March, 2019 as against Rs. 23.14 crore as on 31 March, 2018. The increase in net worth is mainly on account of equity infusion of Rs. 3.40 crore as on 31 March, 2019. The gearing (debt-equity) stood at 1.15 times as on 31 March, 2019 as against 1.53 times as on 31 March, 2018. The total debt outstanding of Rs. 35.43 crore as on 31 March, 2019 mainly comprises of working capital borrowings of Rs. 34.63 crore and Rs. 0.80 crore of long term debt. Further, the coverage indicators stood moderate marked by Interest Coverage Ratio (ICR), which stood at 2.17 times for FY2019 as against 1.92 times for FY2018. Debt to EBITDA stood at 2.71 times in FY2019, which has improved from 4.74 times in FY2018. Acuite believes that the financial risk profile of the company is expected to remain healthy backed by healthy net cash accruals and in the absence of any major debt funded capex in near to medium term.

- **Efficiently managed working capital operations**

The company has efficiently managed its working capital operations marked by Gross Current Assets (GCA) of 90 days for FY2019 as against 98 days for FY2018. The debtors stood at 69 days for FY2019 as against 68 days for FY2018. The inventory level stood low at 21 days for FY2019 as against 25 days for FY2018. Further, the average bank limit utilisation stood at ~69.92 per cent for past six months ended July 2019. This is mainly on account of elongation of creditor days to 36 for FY2019 as against 12 in the previous year. Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

- **Thin profitability**

The operating profitability of the company stood low at 3.91 per cent in FY2019. However, the operating margins have improved from 3.16 per cent in FY2018 and 3.00 per cent on FY2017. Further, Profit after tax (PAT) margins stood thin at 1.38 per cent in FY2019 improved from 0.90 per cent in FY2018.

- **Competitive and fragmented industry**

DSSL is exposed to intense competition from several other small scale and large scale IT enabled solution providers.

Liquidity Position

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 4.91 crore for FY2019, while its maturing debt obligations were Rs. 0.18 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 6.00 crore to Rs. 9.00 crore during 2020-22 against no expected repayment obligation. The company's working capital operations are moderate marked by gross current asset (GCA) days of 90 days for FY2019. The company maintains unencumbered cash and bank balances of Rs. 0.16 crore as on 31 March 2019. The current ratio stood at 1.27 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that DSSL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	303.72	210.70	158.29
EBITDA	Rs. Cr.	11.88	6.66	4.75
PAT	Rs. Cr.	4.19	1.89	1.24
EBITDA Margin	(%)	3.91	3.16	3.00
PAT Margin	(%)	1.38	0.90	0.78
ROCE	(%)	19.72	13.49	11.52
Total Debt/Tangible Net Worth	Times	1.15	1.53	0.98
PBDIT/Interest	Times	2.17	1.92	1.77
Total Debt/PBDIT	Times	2.71	4.74	3.89
Gross Current Assets (Days)	Days	90	98	96

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-17.htm>
- Entities in Services Sector - <https://www.acuite.in/view-rating-criteria-8.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
05-July-2019	Cash Credit	Long Term	35.00	ACUITE BBB- /Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)
01-Jun-2018	Cash Credit	Long Term	35.00	ACUITE BBB- /Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB /Stable (Upgraded from ACUITE BBB-/ Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:

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