

Press Release

Dynacons Systems And Solutions Limited

November 27, 2019



Rating Reaffirmed

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 65.00 Cr. (Enhanced from Rs. 55.00 crore) |
| Long Term Rating | ACUITE BBB / Outlook: Stable |
| Short Term Rating | ACUITE A3+ |

* Refer Annexure for details

Rating Rationale

Acuité 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 the Rs. 65.00 crore bank facilities of DYNACONS SYSTEMS AND SOLUTIONS LIMITED (DSSL). The outlook is '**Stable**'.

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

Acuité has considered the standalone business and financial risk profiles of Dynacons Systems & 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. Acuité 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 percent 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 for Q2FY2020 stood at Rs. 92.57 crore as against Rs 88.25 crore in the previous quarter (Q1FY2020). Acuité believes that the revenues are expected to improve on account of healthy order book position of Rs. 360.47 crore which are to be executed in next 1-2 years, hence giving a revenue visibility over near to medium term. It is also critical for the company to get repeat orders from its existing clients and from its new customers.

- **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. Acuité 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 utilization stood at ~66 percent for past six months ended Oct 2019. This is mainly on account of elongation of creditor days to 36 for FY2019 as against 12 in the previous year. Acuité 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.

Rating Sensitivities

- Significant improvement in scale of operations
- Significant decline in profitability
- Deterioration in working capital cycle.

Material Covenants

None

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 stands at 1.27 times as on 31 March 2019. Acuité 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

Acuité 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-52.htm>
- Entities in Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 |
|--------------|---------------------------------|------------|------------------|---|
| 13-Sept-2019 | Cash Credit | Long Term | 35.00 | ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| 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 (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A3+ (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A3+ (Reaffirmed) |

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About Acuité Ratings & Research:

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