

**Press Release**

**Dynacons Systems and Solutions Limited**

June 02, 2021

**Rating Reaffirmed and Outlook Revised**



<b>Total Bank Facilities Rated*</b>	Rs. 65.00 Cr
<b>Long Term Rating</b>	ACUITE BBB/ Positive (Reaffirmed and Outlook Revised from Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Reaffirmed)

\* Refer Annexure for details

**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 the Rs. 65.00 Cr bank facilities of Dynacons Systems and Solutions Limited (DSSL). The outlook is revised to **'Positive'**.

**Rationale for rating reaffirmation and revision in outlook**

The rating reaffirmation reflects sustained operations and profitability for FY2020, reputed clientele, healthy financial risk profile and adequate long-term liquidity position. On the contrary, working capital operations of the company are moderately intensive in nature.

The revision in outlook is reflected by healthy order book position of Rs. 633.29 Cr as on November 2020, which is around 2 times of operating income for FY2020. There has been addition of Rs. 136.82 Cr of new orders since then. Moreover, healthy growth in operational parameters is expected for FY2021, despite of covid-19 pandemic. DSSL has registered revenue of around Rs. 305.07Cr during 9MFY2021 as against Rs. 273.10 Cr during 9MFY2020. Furthermore, 9.60 lakh warrants are proposed to convert into equity shares to promoters on preferential basis, which is expected to improve the gearing levels. In addition to this, DSSL does not have significant amount of long-term debt in the capital structure that adds to its financial flexibility.

**About the company**

Incorporated in 1995, 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 a standalone view on the business and financial risk profile of Dynacons Systems and Solution Limited to arrive at this 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 IT industry. Mr. Shirish Anjaria (Managing Director) is also the Founder of the Millennium PC, an initiative which 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 profitability along with healthy order book position**

The operating income of DSSL has grown at a CAGR of 24.76 percent for the period FY2018-FY2020. The revenues increased to Rs. 327.95 crore in FY2020 from Rs. 303.72 crore in FY2019 and Rs.210.70 crore in FY2018. 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 an increasing trend in FY2021. The revenues for Q2FY2021 stood at Rs.93.21 crore as against Rs. 58.03 crore in Q1FY2021. Further, operating margins improved to 4.45 per cent in FY2020 from 3.91 per cent in FY2019. Profit after Tax margin has improved to 1.87 per cent in FY2020 from 1.38 per cent in FY2019.

Acuite believes that the revenues are expected to improve on account of healthy order book position which gives 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.36.19 crore as on 31 March, 2020 as against Rs.30.73 crore as on 31 March, 2019. The gearing (debt-equity) improved to 0.97 times as on 31 March, 2020 from 1.15 times as on 31 March, 2019. The total debt outstanding of Rs.35.21 crore as on 31 March, 2020 mainly comprises of working capital borrowings of Rs.34.82 crore and Rs. 0.39 crore of long term debt. Further, the coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) which stood at 2.17 times for FY2020 and for FY2019. Debt to EBITDA stood at 2.09 times in FY2020 as against 2.71 times in FY2019. 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.

### **Weaknesses**

- **Moderate working capital operations**

The company has moderate working capital operations marked by Gross Current Assets (GCA) of 106 days for FY2020 as against 90 days for FY2019. The debtors' days increased to 93 days for FY2020 as against 69 days for FY2019. The inventory level stood low at 10 days for FY2020 as against 21 days for FY2019. Further, the average bank limit utilization stood at ~80 percent for past ten months ending March, 2021.

Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

- **Competitive and fragmented industry**

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

### **Rating Sensitivity**

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

### **Material Covenants**

None

### **Liquidity position: Adequate**

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.14 crore for FY2020 while its maturing debt obligations were Rs.0.50 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8.00 to 11.00 crore during 2021-23 against no expected repayment obligation. The company's working capital operations are comfortable marked by Gross Current Asset (GCA) days of 106 days for FY2020. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on 31 March 2020. The current ratio stands at 1.25 times as on 31 March 2020. Acuite believes that the liquidity of the

company is likely to remain adequate over the medium term on account of healthy cash accrual against no major debt repayments over the medium term.

### Outlook: Positive

Acuite has revised the outlook of DSSL from Stable to Positive. This revision is on account of expected improvement in scale of operations and profitability coupled with healthy order book position over a medium term. The rating may be upgraded if the company registers expected or higher-than-expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Stable' 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	327.95	303.72
PAT	Rs. Cr.	6.12	4.19
PAT Margin	(%)	1.87	1.38
Total Debt/Tangible Net Worth	Times	0.97	1.15
PBDIT/Interest	Times	2.17	2.17

### 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-52.htm>
- Entities in Service 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/view-rating-criteria-55.htm>

### Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-Jan-21	Cash Credit	Long term	35.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
27-Nov-19	Cash Credit	Long term	35.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
13-Sep-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-Jul-2019	Cash Credit	Long term	35.00	ACUITE BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/ Positive (Reaffirmed and Outlook revised to Positive)
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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