

Press Release

Dynacons Systems and Solutions Limited

August 30, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	-	ACUITE A2 Upgraded
Bank Loan Ratings	35.00	ACUITE BBB+ Stable Upgraded Positive to Stable	-
Total Outstanding Quantum (Rs. Cr)	65.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to 'ACUITE BBB+' (read as ACUITE triple B plus) and short term rating to 'ACUITE A2' (read as ACUITE A two) on the Rs. 65.00 Cr bank facilities of Dynacons Systems and Solutions Limited (DSSL). The outlook is revised to 'Stable'.

Rationale for rating upgrade

The rating upgrade is reflected by DSSL's consistent increase in the scale of operations and profitability, its healthy financial risk profile and adequate liquidity. The company has reported a revenue growth of around 50% during FY2022 whilst maintaining stable operating margins. The revenues for FY2022 stood at Rs. 653 Cr. against Rs. 435 Cr in FY2021. Further, the rating continues to draw comfort from DSSL's long track record of operations, extensive experience of the management and its association with reputed clientele. The rating also derives comfort from DSSL's order book position of around Rs.940 crore showing healthy revenue visibility over the medium term. The rating is however constrained by presence in a highly competitive and fragmented industry along with intensive working capital operations, and timely realization of its receivables will remain a key rating sensitivity

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 DSSL to arrive at this rating.

Key Rating Drivers

Strengths

Established track record of operations, experienced management and reputed clientele

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 which has also helped the company to garner reputed clientele which include names like Facebook India, Reserve Bank of India, State Bank of India, Amazon, PayPal, MCGM etc to name a few. The long track record of operations and experience of the management has helped the company to maintain healthy relationships with its customers and suppliers which in turn has also ensured a healthy and consistent order book for DSSL from its clients as seen over the years.

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 profitability along with healthy order book position

The operating income of DSSL has grown at a CAGR of 33 percent for the period FY2018-FY2022. The revenues increased to Rs. 653.98 Cr. in FY2022 from Rs. 435.94 Cr. in FY2021 and Rs.327.95 Cr. in FY2020. This is mainly on account of consistent orders from existing as well as new customers. DSSL caters to reputed clientele such as Facebook India, Life Insurance Corporation of India (LIC), Municipal Corporation of Greater Mumbai (MCGM), Reserve Bank of India (RBI), National Payments Corporation of India (NPCI) to name a few. DSSL currently has an unexecuted order book of Rs. 942 Cr. in hand and another Rs.650 Cr. orders expected to be received in the near term giving a healthy revenue visibility over the medium term. Further, the revenues on Q-to-Q basis have been on an increasing trend during FY2023. The revenues for Q1FY2023 stood at Rs. 160 Cr. against Rs. 147 Cr. corresponding Q1FY2022. Further, the operating margins have been stable in the range of 4.45-4.66 percent from last three years.

Acuité believes that the revenues are expected to improve further on account of healthy order book position.

Healthy financial risk profile

DSSL's financial risk profile is healthy marked by low gearing and sufficient debt coverage indicators. The company reported tangible net worth of Rs. 67.86 Cr. as on March 31, 2022 against Rs. 49.45 Cr. as on March 31, 2021. The gearing as on March 31, 2022, stood at 0.91 times against 0.82 times as on March 31, 2021. The marginal increase in the gearing is due to additional GECL and working capital facilities availed during FY2022. The total debt during FY2022 stood at Rs 61.74Cr. against Rs. 40.46 Cr. in FY2021 which includes an addition of around Rs.15 Cr. in the working capital facilities and rest GECL facilities availed during March 2022 by the company. DSSL's debt coverage indicators are healthy marked by ICR of 3.62 times during FY2022 against 2.86 times in FY2021 and DSCR at 2.33 times in FY20FY22 against 2.39 times in FY2021 respectively. Going forward, the gearing is expected to improve in absence of any significant debt additions and remain in the range of 0.70-0.80 times for FY2023, along with estimated improvements in the ICR and DSCR expected to maintain a range of 3.88 times and 2.44 times during FY2023 given the healthy order book position and profit accretions expected in the near future.

Weaknesses

Elongation observed in working capital cycle

DSSL's working capital cycle is moderately intensive marked by GCA of 146 days during FY2022 against 129 days in FY2021. The GCA has been increased marginally during FY2022 owing to its credit terms extended to the debtors. DSSL undertakes significant business with government

authorities like MCGM, RBI, LIC, SBI etc which demands an extended credit terms which has resulted in stretch in the debtors' cycle during FY2022 which stood at 98 days against 85 days in FY2021. Further, the company also maintains certain inventory pertaining to laptops, monitors etc as a part of providing equipment on a yearly contract basis. The inventory days during FY2022 stood at 42 against 37 in FY2021. The company due to its established market position enjoys extended credit terms from its suppliers marked by creditor days of 100 during FY2022 against 75 in FY2021. The creditors also include certain channel financing facilities to the tune of Rs.20 Cr. extended towards its regular suppliers. However, the elongation in receivable cycle has increased its dependency on working capital limits. The working capital limits of the company have remained utilised at around 97% for last six months ended June-2022, and the non-fund-based limits are utilised at around 60% over the last six months ended June 2022.

Acuite believes that any further elongation in receivables will remain a key rating sensitivity.

Competitive and fragmented industry

DSSL operates in a fragmented and competitive industry, where it faces high competition from small as well as well established players with high resources. However, DSSL has been providing multiple service offerings, along with maintaining diversified industry clientele to be able to retain its market position.

Acuite believes that the addition of new customers will be critical in order to scale up its operations over the medium term.

Rating Sensitivities

- Timely recovery of trade receivables
- 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.17.79 crore for FY2022 while its maturing debt obligations were Rs.2.56 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.22 to Rs.31 crore during FY2023-24 against repayment obligations close to Rs. 4 Cr. The company's working capital operations are comfortable marked by Gross Current Asset (GCA) days of 146 days for FY2022. The company maintains cash and bank balances of Rs.7.28 Cr. as on 31 March 2022. The current ratio of DSSL stood at 1.32 times as on 31 March 2022.

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: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term on account of its consistent revenue growth, stable profitability over the years, its experienced management, and healthy financial risk profile coupled with healthy order book position over a medium term. The rating may be upgraded if the company registers higher-than-expected growth in revenues and profitability along with maintaining stable working capital. 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

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	653.98	435.94
PAT	Rs. Cr.	16.43	9.22
PAT Margin	(%)	2.51	2.12
Total Debt/Tangible Net Worth	Times	0.91	0.82
PBDIT/Interest	Times	3.62	2.86

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jun 2021	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB Positive (Reaffirmed)
08 Jan 2021	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 2019	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	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	35.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
05 Jul 2019	Bank Guarantee	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2 Upgraded (from ACUITE A3+)
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+ Stable Upgraded Positive to Stable (from ACUITE BBB)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+ Stable Upgraded Positive to Stable (from ACUITE BBB)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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