Press Release

Dynatech Tools And Devices (Bengaluru) Private Limited

January 07, 2020

Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.22.00 Cr. (Enhanced from Rs.12.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/ Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB-**' **(read as ACUITE triple B minus)** from '**ACUITE BB+**' **(read as ACUITE double B plus)** and short term rating to **'ACUITE A3' (read as ACUITE A three)** on the Rs.12.90 crore bank facilities and assigned the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs.9.10 crore of Dynatech Tools and Devices Private Limited (DTDPL). The outlook is **'Stable'**.

The rating upgrade is in view of continued improvement in operating performance coupled with stabilization of capex program. Acuité believes going ahead the company will sustain the growth in revenues, profitability margins and accruals over the medium term.

Bangalore based DTDPL was incorporated in 2012 by Mr. Hemanth Vitall and Mr. Damodar Bellairu. The company is engaged in manufacturing of high precision components for International machines tool and aerospace industry. DTDPL exports to reputed clients like, DMG Mori Aktiengesellschaft, Bosch Limited and Titeflex Europe SAS among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and improving business risk profile**

  The promoters, Mr. Damodar B, Mr. Hemanth K.V. and Mr. Thimmaiah B D, have more than one decade of industry experience through other businesses. The extensive experience of the promoters have enabled DTDPL to establish working relations with reputed players of domestic and export market. The company derives 70 percent of the revenue from reputed clients like, DMG Mori Aktiengesellschaft, Bosch Limited and Titeflex Europe SAS, Graziano Tortons S.R.L, Liebherr Machine Tools (India) Private Limited, to name a few.

  The operating income of DTDPL has grown at a CAGR of 31 per cent for the period FY2017-FY2019. The revenues increased to Rs.29.98 crore in FY2019 from Rs.17.37 crore in FY2017. The operating and net profit margins have also seen improvement trend during the period under study. The same stood at 22.71 percent and 9.00 percent in FY2019 as against 21.57 percent and 7.47 percent in FY2018, respectively. This improvement is mainly on account of recently added new unit in the Bangalore to enhance its capacity and to furnish increased number of orders from exports as well as domestic market.

  Acuité believes that the company will sustain its revenue and accruals over near to medium term.

- **Healthy financial risk profile**

  The financial risk profile of DTDPL is healthy, marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth of DTDPL is healthy at around Rs.24.14 crores as on March 31, 2019 as against Rs.21.44 crore as on March 31, 2018. The net worth has seen improvement

over the last three years through FY2019 on account of healthy accretion to reserves and the unsecured loans considered as quasi equity of Rs.2.50 crore as on March 31, 2019.
The company has followed conservative financial policy, the same is reflected through its peak gearing around 0.70 times as on March 31, 2019. The company has undergone capital expenditure plan of Rs.18.70 crore for establishing new unit in FY2019. Out of which Rs.9.70 crore sanctioned from bank. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 0.85 times as on March 31, 2019 as against 0.68 times as on March 31, 2018. The total debt of Rs.16.80 as on March 31, 2019 comprising of term loans to the tune of Rs.11.15 crore, working capital borrowings to the tune of Rs.4.88 crore and unsecured loans from the promoters to the tune of Rs.0.77 crore.
The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) stood at 5.20 times against 4.17 times for FY2018. Moreover, Debt Service Coverage Ratio (DSCR) stood at 2.16 for FY2019 against 2.70 times in FY2018.
Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Modest scale of operations along with susceptibility of profitability to volatility in raw material prices**
  DTDPL has modest scale of operations as marked by the operating income is restrained at Rs.29.98 crore in FY2019 as compared to Rs.17.37 crore in the previous year. The company has registered turnover of Rs.20.00 crore from April, 2019 to November, 2019. DTDPL has executable order book of Rs.6.65 crore as on 30 November 2019. Further, the major raw material for manufacturing intricate components are alloy steel, stainless steel, aluminum and the prices for the same are highly volatile in nature. Hence, any adverse change in the prices of the raw material may impact the profitability margins of the company.

- **Working capital intensive operations**
  Despite of improvement, the operation of DTDPL are working capital intensive marked by GCA days of 102 in FY2019 against from 144 in FY2018. This is on the account of realization of payments from customers marked by debtor days of 54 in FY2019 as against 90 days in FY2018. The inventory holding period stood at 33 days in both FY2019 as well as in FY2018. The debtor days and inventory holding period is high, because of the elongated manufacturing process. Further, the company enjoys credit period of average 56 days for FY2019 which moderates the reliance on working capital borrowings.
  Acuité believes that the efficient working capital management will be crucial to the DTDPL in order to maintain a stable credit profile.

Liquidity Position: Adequate

The DTDPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.9-4.5 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.1.5-2.5 crore over the same period. The cash accruals of the company are estimated to remain around Rs.4-6 crore during 2020-22, while its repayment obligation are estimated to be around Rs.3-3.5 crore over the same period. The working capital operations of DTDPL improved significantly marked by gross current asset (GCA) days of 102 in FY2019. The cash credit limit remains utilised at 80 percent during the last one year ended October 2019. The company maintains unencumbered cash and bank balances of Rs.0.88 crore as on March 31, 2019. The current ratio stands at 0.84 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against repayments over the medium term.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Elongated working capital cycle.

Material covenants

None

Outlook: Stable

Acuité believes that the outlook on DTDPL will remain 'Stable' over the medium term from its experienced management and improving business risk profile. The outlook may be revised to 'Positive in case the company registers higher-than expected growth in revenues while maintaining stable operating margins. Conversely, the outlook may be revised to 'Negative' if the financial risk profile deteriorates owing to higher-than-expected increase in debt funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	29.98	21.06
PAT	Rs. Cr.	2.70	1.57
PAT Margin	(%)	9.00	7.47
Total Debt/Tangible Net Worth	Times	0.70	0.54
PBDIT/Interest	Times	5.20	4.17

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
12-Dec-2018	Cash Credit	Long Term	3.00	ACUITE BB+ / Stable (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	0.73	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	0.45	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	1.34	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	2.38	ACUITE BB+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	1.10	ACUITE BB+ / 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs.3.00 crore)	ACUITE A3/Stable (Upgraded from ACUITE A4+)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.10	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.73	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.34	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.38	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)

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About Acuité Ratings & Research:

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