

### Deepsun Industrial Corporation: Reaffirmed

| Facilities               | Amount (Rs. Crore) | Ratings/Outlook                       |
|--------------------------|--------------------|---------------------------------------|
| Cash Credit              | 2.60               | SMERA BB-/Stable<br>(Reaffirmed)      |
| Bank Guarantee           | 4.50               | SMERA A4+<br>(Upgraded from SMERA A4) |
| Bank Guarantee(Proposed) | 2.90               | SMERA A4+<br>(Assigned)               |

SMERA has reaffirmed the long term rating of '**SMERA BB-** (read as SMERA double B minus) and upgraded the short term rating to '**SMERA A4+** (read as SMERA A four plus) from '**SMERA A4** (read as SMERA A four) and also assigned '**SMERA A4+** (read as SMERA A four plus) on the Rs.10.00 crore bank facilities of Deepsun Industrial Corporation (DIC). The outlook is '**Stable**'.

The ratings continue to be strengthened by the experienced management and long track record of operations. The ratings also draw support from the moderate financial risk profile and healthy order book. However, the ratings are constrained by the firm's modest scale of operations and working capital intensive business. The ratings also factor in the high geographical and customer concentration risk.

#### Update

DIC reported revenue of Rs.15.02 crore in FY2016 as compared to Rs.10.71 crore in FY2015 registering a CAGR of 20 percent in the last three years due to timely implementation of projects. The operating margin decreased to 8.39 per cent in FY2016 compared to 10.95 per cent in FY2015 due to increase in material costs. The net profit margin fell marginally to 3.01 per cent in FY2016 compared to 3.21 per cent in FY2015. The upgrading of short term rating reflects an improvement in the liquidity profile as also marked by moderate utilisation of its bank facilities. The cash credit facility has been utilised at 76 per cent in the last six months (ended August 2016), while it was fully utilised till last year.

The firm continues to have moderate financial risk profile marked by moderate gearing, high interest coverage ratios, net cash accruals to total debt and average debt protection metrics. The gearing ratio has improved from 1.36 times in FY2015 to 0.66 times in FY2016. The interest coverage has been 2.42 times in FY2016 compared to 1.96 times in FY2015. Moreover, the NCA/TD has been at 0.24 times in FY2016. The networth is at Rs.3.40 crore in FY2016 compared to Rs 3.14 crore in FY2015.

DIC has projects close to Rs.33.00 crore that provide revenue visibility for the next two years. As informed by the management, the projects will be executed by 2019.

The revenue for FY2016 is at a moderate scale of Rs.15.02 crore while it was Rs.10.71 crore in FY2015. The operations of the firm are working-capital-intensive reflected in its gross current assets of around 297 days in FY2016. However, it has improved from last year's 573 days due to stretched receivables. DIC is exposed to customer concentration risks. The firm has derived over 60 per cent of its revenues from National Project Construction Company Limited in FY2016.

Besides, the firm is also exposed to geographical concentration risk, since DIC undertakes electrical and civil contract works only in the North Eastern states (Tripura, Mizoram and Meghalaya) that constitute 95 per cent of the total business over the last three years.

### **Rating Sensitivity Factors**

- Sustenance of profit margins
- Improvement in scale of operations
- Extent of debt funding capex mix

### **Outlook-Stable**

SMERA believes that DIC will continue to maintain a stable outlook over the medium term owing to its experienced management. The firm is also poised to benefit from the government's focus on infrastructure development in the North Eastern states. The outlook may be revised to 'Positive' in case the firm achieves sustained improvement in revenues and profitability, without corresponding deterioration in the liquidity position and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues, profit margins, or capital structure.

### **About the Firm**

DIC, established in 1990, is a Kolkata-based partnership firm promoted by Mr. Veer L. Pardasani and Mr. Kishore V. Pardasani. DIC is engaged in assembling of floodlights. The firm also undertakes civil construction work for government projects.

For FY2015–16, the firm reported PAT of Rs.0.45 crore on total operating income of Rs.15.02 crore as compared to PAT of Rs.0.34 crore on total operating income of Rs.10.71 crore in FY2014-15.

**Rating History**

| <b>Date</b>   | <b>Facilities</b> | <b>Amount<br/>(Rs.<br/>Crore)</b> | <b>Ratings</b>  |  | <b>Rating<br/>Outlook</b> |
|---------------|-------------------|-----------------------------------|---|--|---------------------------|
|               |                   |                                   | <b>Long Term</b>                                      | <b>Short Term</b>                                      |                           |
| 25 July, 2015 | Cash Credit       | 2.40                              | SMERA BB-<br>(Suspension Revoked;<br>Rating Assigned) | -  | Stable                    |
|               | Bank Guarantee    | 3.00                              | -   | SMERA A4<br>(Suspension<br>Revoked;Rating<br>Assigned) | -                         |
| 7 July, 2015  | Cash Credit       | 2.00                              | SMERA BB-<br>(Suspended)                              | -  | Stable                    |
|               | Bank Guarantee    | 3.00                              | -   | SMERA A4<br>(Suspended)                                | -                         |
|               | Letter of Credit  | 0.50                              | -   | SMERA A4<br>(Suspended)                                | -                         |
| 21 Mar, 2014  | Cash Credit       | 2.00                              | SMERA BB-<br>(Assigned)                               | -  | Stable                    |
|               | Bank Guarantee    | 3.00                              | -   | SMERA A4<br>(Assigned)                                 | -                         |
|               | Letter of Credit  | 0.50                              | -   | SMERA A4<br>(Assigned)                                 | -                         |

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**ABOUT SMERA**

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