DTL Ancillaries Limited (DTL)

February 21, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	30.00	**SMERA BBB/Stable (Assigned)**
Standby Line of Credit	0.50	**SMERA BBB/Stable (Assigned)**
Term Loan*	10.45	**SMERA BBB/Stable (Assigned)**
Letter of Credit	32.00	**SMERA A2 (Assigned)**
Letter of Credit (carved out of Term Loan)	5.65	**SMERA A2 (Assigned)**
Bank Guarantee	6.00	**SMERA A2 (Assigned)**

** includes car loan to the extent of Rs. 0.10 crore*

SMERA has assigned ratings of **'SMERA BBB' (*read as Triple B)*** to DTL Ancillaries Limited's (DTL) Rs.40.95 crore fund based facilities and **'SMERA A2'** to Rs.43.65 crore non-fund based facilities. The outlook is '**Stable**'. The ratings factor in the company's wide product suite within the automotive and capital goods industry, DTL's adoption of new technology and the company's healthy financial risk profile. The ratings also factor in steady growth in the end user demand and DTL's professional and experienced management.

The ratings are however, constrained by customer concentration and high dependence on tendering business from railways. The ratings also factor inherent project risk and high working capital requirements given DTL's dependence on business from government entities.

DTL's products have wide applicability in the automotive (cars, commercial vehicles and railway wagons) industry. The company has also diversified its product range by setting up a cathode electro deposition (CED) plant and a patented flexible cold roll forming (FCRF). The ratings benefit from assured orders received by DTL from reputed customers like Tata Motors Limited and Indian Railways (IR). Going forward IR is expected to invest substantially in rolling stock (wagons) over the medium term which is likely to augur well for the company. DTL also has been approved by Research Design & Standards Organisation (RDSO) as part I supplier to Indian Railways for CRF components. DTL also benefits from a strong financial risk profile evidenced by moderate leverage, improving profitability and high debt coverage indicators. DTL's operations are steered by experienced and professional management. The promoters have experience of almost four decades in the same line of business.

DTL has high customer concentration as around 70 per cent of company's revenues come from Indian railways (IR). Consequently, any deviation in the procurement policy by IR or any delay procurement can impact DTL's revenue profile. Additionally, the Indian wagon industry is expected to be more competitive in the coming years given the entry of new players and increasing trend of IR awarding wagon orders to public sector companies. Moreover, DTL's operations are inherently working capital intensive resulting in high gross current asset days (Total current assets/Net sales) of 156 days (an average of 3 years). The business involves high amount of receivables and inventory levels given the delays in receivables from government entities. The ratings also factor in inherent project risk which may eventually result in delayed growth in revenues.

Outlook - Stable
SMERA believes DTL's outlook will remain stable over the medium term given the company's stable order book position in the current year. The outlook may be revised to 'Negative' if incremental working capital requirements are high and if DTL over leverages for managing the working capital in wake of delayed orders/receivables. The outlook may be revised to 'Positive' if the company generates healthy cash flows from the existing product lines and the scheduled capex, or if it benefits from sustained increase in revenues and margins.

About DTL
DTL is a Pune based customized roll forming firm incorporated in the year 1996. The company is promoted and managed by Mr. Vijay Mohan Jain, first generation entrepreneur having more than four decades of experience. Mr. Jain is ably supported by his son Mr. Sidharth Jain, in his capacity as a Joint Managing Director. Mr. Sidharth Jain has also been instrumental in scaling up the business operations. The company has been approved by RDSO as part I supplier to Indian Railways for CRF components. DTL manufactures CRF components and fabricates side walls and roofs for wagons/coaches which account for almost 70 per cent of the company's revenues. DTL has supplied 130 wagons and 9292 sets of coach/side wall, roof, and end wall modules to IR till date. DTL also supplies load bodies and panels for commercial vehicles to Tata Motors Limited (TML). DTL has supplied 2.5 lakh load bodies of Tata Ace. DTL has indigenously developed technology for roll forming machines which is used for manufacturing railways wagons, coaches, load bodies and other automotive components. During the current year, DTL has also completed indigenously designed CED plant, which was one of the specific requirements for TML. Against this, DTL has assured orders from TML.

DTL reported a profit after tax of Rs. 21.17crore on net sales of Rs. 259.59 crore for the financial year 2011-12, as against a profit after tax of Rs. 11.18 crore on net sales of Rs. 155.77 crore for the year 2010-11. DTL's net worth stood at Rs. 68.16 crore as on March 31st 2012, which includes private equity funding of Rs. 25 crore through India Industrial Growth Fund.

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