Press Release

DTL Ancillaries Limited

May 09, 2018

Suspension Revoked and Rating Assigned

Total Bank Facilities Rated*	Rs.74.00 Cr
Long Term Rating	SMERA BBB-/Stable
Short Term Rating	SMERA A3

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and the short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.74.00 crore bank facilities of DTL Ancillaries Limited (DTLA)**.** The outlook is **'Stable'.**

DTLA is a Pune-based company incorporated in 1996 by Mr. Vijay Mohan Jain. Mr. Jain is ably supported by his son, Mr. Sidharth Jain in his capacity as a Joint Managing Director. DTLA is engaged in manufacturing of Cold Roll Formed (CRF) components for Automobile industry, Indian Railways (IR) and Metro Railways. DTLA manufactures CRF components and fabricates side walls and roofs for wagons/coaches for Indian Railways which accounts for almost 90 percent of the company's revenues. DTLA also supplies load bodies and panels for commercial vehicles to Piaggio Vehicles which accounts to the rest of the 10 percent of the revenues. The company has five manufacturing units, four at Pune and one at Kolkata.

Key rating drivers

Strengths:

Established track record of operations and experienced management

DTLA, incorporated in 1996 as a public limited company by Mr. Vijay Jain and his son, Mr. Siddharth Jain. Mr. Vijay Jain has more than four decades of experience in the said line of business. The company started as a vendor of Tata Motors Ltd (TML) and currently supplies load body panels of mild steel, stainless steel and other auto ancillary components for Piaggio and SML Isuzu Vehicles. From 2005, DTLA started supplying CRF component used for wagons by Indian Railways.

SMERA believes that the company will be benefited over the medium term on the back of established track record and experienced management.

Healthy business risk profile

The company has established relations with reputed client including Indian Railways, Titagarh Wagon Ltd, Tata Motors Limited, Piaggio Vehicles and Braithwaite & Company Ltd which helps to get repeated orders. DTLA has healthy business risk profile marked by operating income of Rs.173.45 crore in FY2017 as against Rs.160.71 crore in FY2016. Further, DTLA has booked revenue of Rs.190.00 crore for the period April to March, 2018 (Provisional). The operating margins stood healthy at 16.60 percent in FY2017 as against 17.18 percent in FY2016. The reason for operating margin to go down is because of increase in raw material cost and manufacturing cost in FY2017 over FY2016. The net profitability margins improved at 6.19

percent in FY2017 as against 5.41 percent in FY2016. DTLA has order book position of Rs.525.83 crore as on 31 March, 2018 from Indian Railways and Bharat Earth Movers Limited.

SMERA believes that DTLA will maintain a healthy business risk profile along with growth in revenues and profitability margins on the back of healthy order book position and established market position.

Healthy financial risk profile

DTLA has healthy financial risk profile marked by net worth of Rs.92.95 crore as on 31 March, 2017 which includes unsecured loan of Rs.8.99 crore considered as quasi equity. The net worth stood at Rs.80.47 crore as on 31 March, 2016. The gearing (debt/equity ratio) stood at 0.39 times as on 31 March, 2017 as compared to 0.49 times as on 31 March, 2016. The total debt of Rs.35.98 crore outstanding as on 31 March, 2017 comprises Rs.3.07 crore as term loan, Rs.1.98 crore as unsecured loans from the promoters and Rs.30.93 crore as working capital borrowings from the bank. The Interest Coverage Ratio stood at 2.84 times for FY2017 as compared to 2.55 times for FY2016. DSCR stood at 1.80 times in FY2017 as against 1.42 times in FY2016. The net cash accruals are healthy at Rs.18.34 crore in FY2017 as against Rs.18.49 crore in FY2016. NCA/TD stood at 0.35 times in FY2017 as against 0.32 times in FY2016.

SMERA believes that going ahead DTLA will maintain its financial risk profile over the medium term on the back of its healthy cash accruals and absence of any debt funded capital expenditure plan.

Weaknesses:

Working capital intensive operations

The operations of DTLA are working capital intensive marked by GCA days of 189 in FY2017 as against 191 in FY2016. This is majorly on account of high inventory holding period of 67 days and debtor days of 74 in FY2017. SMERA believes that being engaged in capital goods industry the operations will continue to remain working capital intensive. The average bank limit utilisation stood at 79 percent for the last six months ended February, 2018. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity. Further, DTLA has entered into arbitration and the result of the same is still pending.

SMERA believes that in the event of negative result in arbitration, the cash flows of the company may be impacted in the future however this risk is mitigated on the back of healthy net cash accruals generation and healthy liquidity over the medium term.

High dependence of the business on Indian Railways

Currently, DTLA books revenues of ~90 percent from Indian Railways. DTLA being registered with Research Design & Standards Organisation (RSDO) bids for Indian Railways (IR). Any deviation in the IR procurement policy or delayed procurement could impact the DTLA's revenue profile. Furthermore, the wagon industry is expected to be more competitive over the period, with the entry of new players and IR releasing wagon orders to public sector companies.

SMERA believes that the ability of DTLA to maintain its revenue over the medium term will be critical as the wagon industry will remain vulnerable to the economic cycles and hence the demand will be fluctuating.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of DTLA to arrive at the rating.

Outlook –Stable

SMERA believes that DTLA will maintain a 'Stable' business risk profile on account of experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in the scale of operations while achieving healthy profit margins and comfortable liquidity position. The outlook may be revised to 'Negative' in case of decline in the revenues or profitability and deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	173.45	160.71	117.28
EBITDA	Rs. Cr.	28.80	27.61	9.33
PAT	Rs. Cr.	10.73	8.70	(8.93)
EBITDA Margin	(%)	16.60	17.18	7.96
PAT Margin	(%)	6.19	5.41	(7.61)
ROCE	(%)	16.73	15.71	(0.37)
Total Debt/Tangible Net Worth	Times	0.39	0.49	0.81
PBDIT/Interest	Times	2.84	2.55	1.01
Total Debt/PBDIT	Times	1.29	1.40	5.44
Gross Current Assets (Days)	Days	207	208	283

Status of non-cooperation with previous CRA (if applicable): CRISIL, vide its press release dated October 10, 2017 had denoted the rating of DTL Ancillaries Limited as 'CRISIL B+/Stable ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Jul-2015	Cash Credit	Long Term	30.00	SMERA D (Suspended)
	Standby Line of Credit	Long Term	0.50	SMERA D (Suspended)
	Letter of Credit	Short term	32.00	SMERA D (Suspended)
	Letter of Credit	Short term	5.65	SMERA D (Suspended)
	Bank Guarantee	Short term	6.00	SMERA D (Suspended)
	Term loan*	Long Term	10.45	SMERA D (Suspended)

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

*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	SMERA BBB-/Stable (Suspension Revoked, Rating Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	29.00	SMERA A3 (Suspension Revoked, Rating Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3 (Suspension Revoked, Rating Assigned)

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ABOUT SMERA

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