Press Release

DTL Ancillaries Limited

May 23, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BBB- | Stable | Upgraded	-
Bank Loan Ratings	39.00	-	ACUITE A3 | Upgraded
Total Outstanding Quantum (Rs. Cr)	74.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (read as ACUITE triple B minus) from 'ACUITE BB' (read as ACUITE double B) and short term rating to '**ACUITE A3**' (read as ACUITE A three) from 'ACUITE A4+' (read as ACUITE A four plus) on the Rs.74.00 crore bank facilities of DTL Ancillaries Limited. The outlook is '**Stable**'.

The rating upgrade is on account of overall improvement in business risk profile of the company marked by improvement in top-line, while maintaining the profitability at a healthy level in FY2022 (Prov.) as compared to FY2021. Further, the rating upgrade is also due to the improvement in financial risk profile along with adequate liquidity position of the company during FY2022 (Prov.).

About the Company

DTL is a Pune based company incorporated in the year 1996 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. Darshan Jindal & Mr. Shashank Ramesh Anikhindi both are also director of this company. Mr. Sidharth Jain has been instrumental in scaling up the business operations. DTL is engaged in manufacturing of Cold Roll Formed (CRF) components for Automobile industry, Indian Railways and Metro Railways. DTL manufactures CRF components and fabricates side walls and roofs for wagons/coaches for Indian Railways which accounts for almost 95% of the company's revenues. DTL also supplies load bodies and panels for commercial vehicles to Piaggio vehicles which accounts to 5% of the revenues.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DTL while arriving at the rating.

Key Rating Drivers

Strengths

Experienced management and long t rack record of operation

DTLA, incorporated in 1996 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). From 2005, DTLA started supplying CRF component used for wagons by Indian Railways. Currently the company is engaged into fabrication and furnishing work for Indian Railways. Acuité believes that the company will be benefited over the medium term on the back of established track record and experienced management.

Modest scale of operation

The revenue of the company has declined to Rs.131.33 crore in FY2021 as compared to Rs.302.80 crore in the previous year. The sharp decline in revenue is due to impact of covid-19 and nation-wide lockdown during the period. However, the revenue of the company has increased to Rs.199.00 crore in FY2022 (Prov.). Going forward, Acuité believes that the revenue of the company will improve backed by steady demand from the Indian Railways for fabrication work for coaches, wagons, metro railway coaches, station development fabrication and complete loco-shell manufacturing. The company also have Rs.497.69 crore of order in hand as on 1st Apr 2022, which imparts revenue visibility over the near term.

Moderate profitability margin

The operating profitability margin of the company had declined and stood moderate at 5.11 per cent in FY2021 as compared to 17.46 per cent in the previous year. This significant deterioration in operating margin is mainly on account of disruption in operations during the period on account of impact of COVID-19 and nation-wide lockdown. However, the operating margin of the company has improved to 10.00 per cent in FY2022 (Prov.). Going forward, Acuité believes that the operating profitability margin of the company will remain at comfortable level backed by continuous demand from Indian Railways and Metro Railways. The company had faces net loss of 7.33 per cent in FY2021 as compared to 1.06 per cent in the previous year. However, the net profitability margin of the company has improved to 3.08 per cent in FY2022 (Prov.).

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and comfortable debt protection metrics. The net worth of the company stood healthy at Rs.95.26 crore in FY 2021 as compared to Rs. 106.47 crore in FY2020. This deterioration in networth during FY2021 is on account of net loss during the period. The networth of the company is expected to improve to Rs.101.41 during FY2022 (Prov.) on account of retention of profit generated in FY22. The gearing of the company stood comfortable at 0.98 times as on March 31, 2021 when compared to 0.82 times as on March 31, 2020. The gearing of the company is expected to improve to around 0.66 per cent in FY'22 while remaining at comfortable levels. The overall coverage indicators are also expected to improve during FY2022 (Prov.) Interest coverage ratio (ICR) of the company stood low at 0.74 times in FY2021 as against 1.26 times in FY 2020. The ICR of the company is expected to increase to 2.40 times in FY2022 (Prov.). The debt service coverage ratio (DSCR) of the company stood low at 0.54 times in FY2021 as compared to 1.74 times in the previous year. The DSCR of the company is expected to increase to 1.75 times in FY2022 (Prov.). The net cash accruals to total debt (NCA/TD) stood negative at 0.03 times in FY2021 as compared to 0.13 times in FY2020 The NCA/TD is expected to increase to 0.17 times in FY2022 (Prov.). Going forward, Acuité believes the financial risk profile of the company will improve on account of increase in net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

High dependence of the business on Indian Railways

Currently, DTLA books revenues of ~95 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. Acuité 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.

Working capital intensive nature of operation
The working capital management of the company is marked by high gross current asset (GCA) days of 378 days in FY2021 as compared to 187 days in FY2020. The GCA days of the company has however improved to 235 days in FY2022 (Prov.). This high GCA day is mainly on account of the high inventory days of the company of 110 days in FY2021 as compared to 47 days in the previous year. This significant increase in inventory during 31st March 2021 is mainly on account of work-in-progress inventory, which has not been completed due to nation-wide lock down during the period. The collection period of the company had also significantly increased to 129 days in FY2021 as compared to 91 days in the previous year. This significant increase in collection period is also due to delays in payment from the Railway department backed by nation-wide lock down. However, the company is able to streamline its collection period to 65 days during FY2022 (Prov.). Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Profitability of the company is susceptible to volatility in raw material prices
The main raw material required by the company is steel and the prices of which are highly volatile in nature. Hence, the profitability of the company is highly susceptible to the prices of steel in the absence of any pricing flexibility against the customer. Going forward, the ability of the company to manage the volatility in raw material prices and maintain its profitability will remain a key rating sensitivity factor.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material covenants
None

Liquidity Position: Adequate

The company has adequate liquidity position marked by comfortable net cash accruals of Rs.11.63 crore as against Rs.3.10 crore of long term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 12.75 crore to Rs. 15.02 crore during 2023-24 as against of Rs.3.10 long term debt obligations during the period. The current ratio of the company stood comfortable at 1.41 times in FY2021. However, the Gross Current Asset (GCA) days of the company stood high at 378 days in FY2021. Further, the GCA days of the company has improved to 234 days in FY2022 (Prov.). The bank limit of the company has been ~92 percent utilized during the last six months ended in April 2022. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no long debt repayments over the medium term.

Outlook: Stable

Acuité believes the company will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and established association with customers and suppliers along with comfortable financial risk profile. The outlook may be revised to "Positive" in case the firm registers significant improvement in scale of operations while sustaining their profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability or capital structure, or in case of further elongation of the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	131.23	302.80
PAT	Rs. Cr.	(9.62)	3.22
PAT Margin	(%)	(7.33)	1.06
Total Debt/Tangible Net Worth	Times	0.98	0.82
PBDIT/Interest	Times	0.74	2.11

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
- Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.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
15 Apr 2021	Cash Credit	Long Term	35.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	29.00	ACUITE A4+ (Issuer not co-operating*)
14 Jan 2020	Cash Credit	Long Term	35.00	ACUITE BB+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	29.00	ACUITE A4+ (Issuer not co-operating*)
10 Jul 2019	Bank Guarantee	Short Term	10.00	ACUITE A3 (Issuer not co-operating*)
	Letter of Credit	Short Term	29.00	ACUITE A3 (Issuer not co-operating*)
	Cash Credit	Long Term	35.00	ACUITE BBB- (Issuer not co-operating*)
09 May 2018	Cash Credit	Long Term	35.00	ACUITE BBB- | Stable (Assigned)
	Letter of Credit	Short Term	29.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 | Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- | Stable | Upgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A3 | Upgraded

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Abhishek Dey Senior Analyst-Rating Operations Tel: 022-49294065 abhishek.dey@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.