Press Release

D C Infotech & Communication Limited (DCI)

January 31, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	33.00	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	36.00	IVR A3 (IVR A Three)	Reaffirmed	Simple
Proposed Long Term/Short Term Bank Facilities	12.00	IVR BBB-/Positive/ IVR A3 (IVR Triple B Minus with Positive Outlook/ IVR A Three)	Reaffirmed	Simple
Total	**81.00 (Rupees Eighty-one crore only)**			

Details of Facilities are given in Annexure 1

Detailed Rationale:

The reaffirmation of ratings assigned to the bank facilities of D C Infotech & Communication Limited (DCI) continue to derive strength from the experienced promoters and extensive presence in IT networking and solution-based business, established customer and supplier relationship, growing scale of operations with moderate profitability margins, comfortable capital structure and debt protection metrics. The rating strengths are however, tempered by foreign exchange fluctuation risk and exposure to intense competition in the IT industry.

The Positive outlook reflects the expected improvement in the business risk profile of the company as it is foraying into project-based segment, supported by increasing scale of operations and consequent likely improvement in financial risk profile.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in revenue and operating profits, leading to higher operating cash flows on a sustained basis.
- Sustained improvement in working capital cycle with TOL/TNW below 2x.

Downward Factors

- Deterioration in revenue and operating profits with concomitant impact on credit profile.
- Deterioration in working capital management, impacting the liquidity of the company.
- Sharp changes in leverage impacting debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters and extensive presence in IT networking and solution-based business

DCI has an established track record of around two decades in the IT networking and solution-based business and has developed a wide customer base, with number of large enterprises and small and medium enterprises. Promoters have over two decades of experience in the IT networking and solution-based business. The company's business is divided into three verticals: networking, security solutions, and unified communication and collaboration (UCC).

Established customer and supplier relationship.

Presence of over two decades in the IT industry has enabled the promoters to establish strong relationship with suppliers and customers which has led to repeat orders. The company has numerous business partners in information technology (IT), commercial displays and security areas, such as D-Link, Netgear, Samsung, NetScout, Arbour, Zscaler, Aten, SonicWall, Kramer, Riverbed, and others. The company has a pan-India distribution network with over 1,600 channel partners and sales representatives in major cities such as Delhi, Kolkata, Bengaluru, Chandigarh, and Indore etc. The company's clients include Kotak Mahindra Bank, HDFC Bank, Lupin, Siemens etc.

Growing scale of operations with moderate profitability margins

DCI's total operating income (TOI) has seen a CAGR growth of 28.65% over the last three years. TOI increased from Rs.168.90 crore in FY21 to Rs.232.51 crore in FY22 and to Rs.359.63 crore in FY23 on account of technological advancement, strong demand, and new market opportunities. However, more than 90% of the revenue comes from the distribution segment. Owing to the inherent nature of the distribution business, company continues to have moderate profit margins. EBITDA margin has been maintained in the range of 3.13%-3.54% during FY21-FY23. The PAT margin was in the range of 1.30%-1.97% in the same period.

The company has achieved revenue of Rs.203.10 crore and EBITDA margin of 4.52% and PAT margin of 2.58% in H1FY24 (Unaudited). Apart from the current distributorship and annual maintenance contract services, DCI is planning to expanding its market reach and improve its operational margins by entering to new project-based business. The company plans to increase revenue share from this segment to 40%-50% in the medium term. The company has secured projects from government clients like RBI, Vidhan Bhavan Nagpur, NABARD, NSE and private sector clients like HDFC bank, Siemens, Axis bank etc.

Comfortable capital structure and debt protection metrics

The company has a modest tangible net worth of Rs.29.29 crore as on March 31, 2023. For expanding its business, the promoters are infusing capital in terms of equity shares on a preferential basis amounting to Rs.21.60 crore. Of the total capital infusion Rs.9.45 crore has been infused in January 2024, Rs.2.43 crore is expected to be infused by March 2024, Rs. 4.86 crore to be infused in FY25 and balance Rs. 4.86 crore to be infused by July 2025. The company has a total debt of Rs.24.13 crore as on March 31,2023. The debt comprises of Rs.1.29 crore vehicle loan, Rs.9.46 crore working capital borrowings, Rs12.92 crore unsecured loan from banks/FIs and Rs.0.45 crore as a inter corporate deposit from the promoters. The overall gearing ratio of the company stood comfortable at 0.89x as on March 31, 2023, and at 0.80x as on March 31, 2022. However, TOL/TNW of the company was moderate at 3.77x as on March 31, 2023, and 3.56x as on March 31, 2022. The debt protection metrics are comfortable with an interest coverage ratio of 4.60x in FY23 as against 4.79x in FY22. Total debt to GCA remained moderate at 3.35x in FY23 and 4.08 times in FY22.

Key Rating Weaknesses:

Foreign exchange fluctuation risk

DCI procures around 37.10% of the total purchases through imports. Exports constitute only 1.25% of total revenues. Company exports to countries like USA, Singapore. Hence the company is exposed to fluctuations in foreign currency. The weakening rupee will have an adverse impact on the profitability of the company. However, imports are covered under LC which mitigates the risk. The company has reported a forex loss of Rs.1.03 crore during FY23 as against forex loss of Rs.0.48 crore during FY22.The unhedged foreign exposure as on September 30,2023 was Rs.18.89 crore. The company plans to hedge its position going forward and has been sanctioned a forward contract limit of Rs.3.50 crore.

Exposure to intense competition in IT industry

Company derives majority of its revenue from the domestic market. The domestic IT market is intensely competitive, and has a sizeable number of unorganized players, which continues to constrain the company's operating margin.

Analytical Approach: Standalone approach

Applicable Criteria:

Criteria of Rating Outlook

Criteria on rating of Trading companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity – Adequate

Liquidity position is adequate marked by sufficient cushion expected in average accruals of Rs.12.33 crore in FY24, Rs.18.35 crore in FY25 and Rs.28.54 crore in FY26 vis-à-vis repayment obligations of Rs.0.69 crore in FY24 and nil in FY25 and FY26. The average working capital utilization of fund-based facility is 46.67% as of 12 months ending December'2023 indicating moderate liquidity buffer. For expanding its business, the promoters are infusing capital in terms of equity shares on a preferential basis amounting to Rs.21.60 crore. Of the total capital infusion Rs.9.45 crore has been infused in January 2024, Rs.2.43 crore is expected to be infused by March 2024, Rs. 4.86 crore to be infused in FY25 and balance Rs. 4.86 crore to be infused by July 2025. The current ratio is adequate at 1.28x as on March 31, 2023. The free cash and bank balance of the company stood at Rs.0.08 crore as on March 31, 2023.

About the Company:

DC Infotech & Communication Ltd. was founded in April 1998 as partnership firm by Mr. Devendra Sayani and Mr. Chetankumar Timbadia. The company was reconstituted as public limited company in 2019. The company offers various IT products, networking, data & cyber security, surveillance, wireless, broadband, digital signage, firewall, and unified communication, among other solutions & services. Company has five warehouses located at

Mumbai, Bhiwandi, Delhi, Ahmedabad, and Surat with more than 1,600 channel partners and sales representatives.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	**(Audited)**
Total Operating Income	232.51	359.63
EBITDA	7.33	12.72
PAT	4.00	7.08
Total Debt	17.80	26.01
Tangible Net-worth	22.27	29.29
Ratios		
EBITDA Margin (%)	3.15	3.54
PAT Margin (%)	1.72	1.97
Overall Gearing Ratio (x)	0.80	0.89

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Date(s) & Rating assigned in 2023-24 (January 25,2024)	Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating		Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22	Date(s) & Rating assigned in 2020-21
1.	Fund based Bank Facility -Cash Credit	Long term	33.00	IVR BBB-/Positive	IVR BBB-/Positive	-	-	-
2.	Non-Fund based Bank Facility-Letter of Credit	Short term	32.50	IVR A3	IVR A3	-	-	-
3.	Non-Fund based Bank Facility-Forward Contract	Short term	3.50	IVR A3	IVR A3	-	-	-
4.	Proposed Fund based Bank Facility	Long term/Short Term	12.00	IVR BBB-/Positive/ IVR A3	IVR BBB-/Positive/ IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Neha Khan
Tel: (022) 62396023
Email: neha.khan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which help corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	-	-	-	33.00	IVR BBB-/Positive
Short Term Non-Fund Based Bank Facility – Letter of Credit	-	-	-	32.50	IVR A3
Short Term Non-Fund Based Bank Facility – Forward Contract	-	-	-	3.50	IVR A3
Proposed Long Term/Short Term Fund Based Bank Facility	-	-	-	12.00	IVR BBB-/Positive/ IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/lender-DCI-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at https://www.infomerics.com/.