



Press Release

Dynamic Air Engineering (India) Private Limited

February 02, 2021

Ratings

Sl. No	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	19.48	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
2	Short Term Bank Facilities	4.00	IVR A4 (IVR A Four)	Assigned
	Total	23.48 (Rupees Twenty-Three Core and Forty-Eight Lakhs only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of Dynamic Air Engineering (India) Private Limited (DAEIPL) derives strength from extensive experience of its promoters, long track record of the company and sustained growth in revenue with revenue visibility in the near term. Further, the ratings also note Infusion of equity in FY20 and adequate debt protection metrics. However, these rating strengths are constrained by small scale of its operations, exposure to risk associated with tender based business & stiff competition from reputed domestic and foreign players, leveraged capital structure albeit sharp improvement in FY20.

Rating Sensitivities:

Upward Factors:

- Improvement in revenue and profitability with improvement in its debt protection metrics on a sustained basis.
- Improvement in the capital structure with improvement in the overall gearing ratio to below 1.5x
- Successful execution of orders in hand
- Improvement in liquidity position of the company.



Press Release

Downward factors:

- Dip in scale of operation and/or moderation in profitability impacting the cash accruals on a sustained basis
- Moderation in the overall gearing to over 3x and/or deterioration in debt protection parameters.
- Decline in the liquidity position of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of the company and extensive experience of the promoters**
Incorporated in 2008, the company has a long track record of more than a decade in the industry. Moreover, the directors of the company have a long-standing experience which has helped them to develop good relationship with its customers & suppliers.
- **Sustained growth in revenue with revenue visibility in the near term**
Total operating income of the company has improved at a CAGR of ~44% during FY17-FY20 with a growth in revenue from Rs.38.38 crore in FY19 to Rs.48.12 crore in FY20. The steady growth was driven by improvement in order execution. Further, as of December 2020, the company has an order book position of around Rs.38 crore to be executed in next 6-9 months indicating revenue visibility in near future. During H1FY21, the company has achieved a revenue of Rs.9.73 crore. However, Infomerics expects moderation in scale of operations in FY21 as the operations of the company was affected in H1FY21 pursuant to nationwide lockdown amidst Covid 19 pandemic.
- **Infusion of equity in FY20 and adequate debt protection metrics**
To support the business, the promoters have infused equity amounting to Rs.3.42 crore in FY20 which resulted in improvement in the leverage ratios of the company. Further, the company has witnessed a steady growth in its profitability in FY20 driven by improvements in revenue and reduction in raw material consumption which resulted in improvement in gross cash accruals from Rs.3.52 crore in FY19 to Rs.6.95 crore in FY20. With improvement in profitability the debt protection metrics of the company marked by interest



Press Release

coverage ratios and Total debt to EBITDA remained comfortable at 3.57x and 1.93x respectively in FY20 (2.59x and 3.93x respectively in FY19).

Key Rating Weaknesses

- **Small scale of operations**

The scale of operations of the company remained small over the years despite its long presence in the industry. The total operating income stood small at Rs.48.12 crore in FY20. The net worth base of the company also remained small at Rs.8.19 crore as on March 31,2020. Small scale of operations restricts the financial flexibility of the company to an extent. However, though the scale of operations remains small, the operating margin of the company remained healthy over the past years and the EBIDTA Margin of the company stood satisfactory at 21.38%. However, the PAT Margin of the company stood at 4.65% in FY20.

- **Risk associated with tender based business and stiff competition from reputed domestic and foreign players**

The number of participants for the tenders floated by the IR generally varies from two to five players on an average. Hence, the revenue is dependent on the company's ability to bid successfully for these tenders. Further, with introduction of e-tendering in IR, the competition also intensified. Given high concentration of DAEIPL's revenues towards the IR, it faces intense competition from various reputed equipment manufacture. Its operations thus remain susceptible to any downturn in IR orders. Further, profit margins come under pressure because of this competitive and tender based nature of the industry.

- **Leveraged capital structure albeit sharp improvement in FY20**

The capital structure of the company remained leveraged over the past three account closing dates because of the TL taken for setting up the second unit which was recently setup in 2019. Further, with high dependence on term debt and working capital intensive nature of operations with a small net worth base, total indebtedness of the company also remained high marked by TOL/TNW at 4.48x as on March 31,2020 (14.80x as on March 31,2019). However, the leveraged ratios marked by its debt equity ratio and overall gearing ratio improved sharply from 7.53x and 8.57x respectively as on March 3,2019 to 2.07x and 2.43x respectively as on March 31,2020. The improvement in leverage ratios was driven



Press Release

by healthy accretion of profit coupled with infusion of equity aggregating to Rs.3.42 crore during FY20.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity position of the company appears to be stretched marked by its working capital-intensive nature of operations and higher dependence on stretching of creditors. With high outstanding creditors the current ratio of the company also remained low at 0.85 times as on March 31,2020. Further, marked by its leveraged capital structure the company has limited gearing headroom. However, average cash credit utilisation of the company stood at around 89% during the past 12 months ended Dec, 2020 indicating limited cushion.

About the Company

Dynamic Air Engineering India Private Limited (DAEIPL), was incorporated in 2008 and is engaged in manufacturing and supplying of a wide range of rail coach equipment's and air conditioning equipment's. Mr. Karthikeyan and Ms. Gunasekaran Girija are the directors of the company. The company is ISO 9001:2015 certified company. It has 2 manufacturing units in Chennai and have the capability of manufacturing all types of components used in rail coaches.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	38.38	48.12
EBITDA	5.71	10.29
PAT	0.56	2.24
Total Debt	22.43	19.87
Tangible Net worth	2.53	8.19
EBITDA Margin (%)	14.89	21.38
PAT Margin (%)	1.45	4.65



Press Release

For the year ended* / As On	31-03-2019	31-03-2020
Overall Gearing Ratio (x)	8.87	2.43

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NIL.

Any other information: NA

Rating History for last three years:

Sr. No	Name of /Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	2.93	IVR BB/Stable	-	-	-
2.	Term Loan – I*	Long Term	3.60	IVR BB/Stable	-	-	-
3.	Term Loan – II*	Long Term	12.95	IVR BB/Stable	-	-	-
4.	BG	Short Term	4.00	IVR A4	-	-	-

*Sanctioned Amt Dated-23.10.2020

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 www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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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 Limits- Cash Credit	-	-	-	2.93	IVR BB/Stable
Long Term Fund Based Limits- Term Loan I*	-	-	Oct 2026	3.60	IVR BB/Stable
Long Term Fund Based Limits- Term Loan-II*	-	-	Oct 2026	12.95	IVR BB/Stable
Short Term Fund Based Limits- Bank Guarantee	-	-	-	4.00	IVR A4

*Sanctioned Amt Dated-23.10.2020