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DCX Cable Assemblies Private Limited

October 05, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities*	869.80	IVR BBB/Stable (IVR Triple B with stable outlook)	Assigned
Short Term Bank Facilities#	783.20	IVR A3+ (IVR A Three Plus)	Assigned
Total	1653.00 (One Thousand Six Hundred Fifty Three Crores Only)		

*Long Term Bank Facility includes proposed limits of Rs.405.00 Crores

#Short Term Bank Facility includes proposed limits of Rs.404.60 Crores.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of DCX Cable Assemblies Private Limited derives comfort from experienced management and established track record of operations. The rating also factors its repeat orders from reputed and diversified clientele, increase in scale of operations and margins, medium term revenue visibility and comfortable operating cycle. However, these strengths are partially offset by moderate financial risk profile, customer concentration risk and need for constant upgradation of technology.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity
- Improvement in the capital structure resulting in further improvement of the financial risk profile

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or deterioration in the financial risk profile



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- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management and established track record of operations

Company's board is comprised of experience and qualified individuals. Mr. Raghavendra Rao, Mr. Neal Jeremy Castleman and Mr. Suresh Babu Anand are the directors of the company. Mr. Raghavendra Rao and Mr. Neal Jeremy both have an experience of over three decades into the industry. Mr. Suresh Babu Anand has an experience of over 15 years. Further, Company has an operational track record of almost 10 years and has achieved significant growth in the last 3-4 years. Longstanding presence of the directors in the industry has helped the company to establish strong relationships with customers and suppliers and diversify the product profile.

Repeat orders from reputed and diversified clientele

Company caters to the demand of reputed and diversified clientele which includes major players such as Israel Aerospace Industries (IAI) and Rafael Advanced Defence Systems Limited. It has been regularly receiving orders from its clients and has a good orderbook position as on date.

Increase in Scale of Operations and Margins

The Company's operating income improved significantly from Rs.449.26 Crores in FY20 to Rs.660.77 Crores in FY21. The EBITDA increased from Rs.5.58 Crores in FY20 to Rs.29.78 Crores in FY21 and on the margin front it has improved from 1.24% in FY20 to 4.51% in FY21 when considered on operating income basis. However, when considered on total business income basis, the EBITDA increased from Rs.21.35 Crores in FY20 to Rs.52.25 Crores in FY21 and on the margin front it has improved from 4.59% in FY20 to 7.65% in FY21. Company initially receives advances against the orders. Against those orders whatever the company receives as advances that is kept in FD. The advance bank guarantee is activated on the basis of 100% FD and advance money received is converted into FD immediately, later lien is marked on FD in the bank's favour. Hence interest on FD is



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a part of the total business income. With improved revenue and EBITDA, the PAT and GCA also improved from Rs.9.41 Crores and Rs.10.31 Crores in FY20 to Rs.32.10 Crores and Rs.34.13 Crores in FY21 respectively. While in percentage terms, PAT Margin is improving continuously over the last 4 years and PAT Margin improved to 4.70% in FY21 from 2.02% in FY20.

Revenue Visibility

The Company is having open orderbook of Rs.2905.43 Crores out of which ~Rs.1200.00 Crores has to be executed in FY22 and ~Rs.1450.00 Crores has to be executed in FY23. Hence it shows strong medium term revenue visibility.

Comfortable Operating Cycle

Cash conversion cycle stands comfortable at 28 days in FY21 (PY 18 days) which reflects lower reliance on working capital debt. The average collection period is 29 days (PY:76 days) and average inventory holding period stands at 81 days (PY: 34 days) in FY21. The average creditors period stands at 81 days in FY21 as against 92 days in FY20.

Key Rating Weaknesses

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by Tangible Net worth base of Rs.48.33 Crores in FY21 as against Rs.16.72 Crores in FY20. The Overall gearing stands at 2.82x in FY21 as against 8.01x in FY20. The Interest Coverage Ratio (ICR) stands at 3.33x in FY21 as against 0.80x in FY20.

Need for constant upgrading of technology

The company operates in a domain that requires continuous research and development and technologically upgrading products as per changing customer needs. However, company is expected to continue to maintain and upgrade evolving technologies to suit customer needs on the back of its current technology base and past track record.

Customer concentration in revenue

The major customers account for about 92% of total sales. The high customer concentration makes revenue growth and profitability dependent on the growth plans of these customers.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity –Adequate

DCX has generated a cash accrual of Rs.34.13 Crores in FY21 and it is not having any near-term obligations. Going forward there are negligible term obligations. The average utilization of the working capital facilities for last 12 months ended August 2021 stood at ~70% indicating sufficient buffer to meet incremental requirements. Further, company had free cash and bank balance of Rs.85.88 Crores as on March 31, 2021. All these factors reflect adequate liquidity position of the company.

About the Company

DCX Cable Assemblies Private Limited was incorporated in the year 2011 having registered office in Bangalore. DCX is an Indian Offset Defence player offering a full service and manufacture of military and aerospace system integration, cable harness business and is well known for its innovation in connection product range with a discerning list of customers in India and Offshore. Company is fully equipped to cater to Aerospace, Defence, Marine and Extended Industrial Applications.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	449.26	660.77
EBITDA	5.58	29.78
PAT	9.41	32.10
Total Debt	133.98	136.38
Tangible Net worth	16.72	48.33
EBIDTA Margin (%)	1.24	4.51
PAT Margin (%)	2.02	4.70
Overall Gearing Ratio (x)	8.01	2.82

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None



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Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Bank Facilities – PCFC (Sanctioned)	Short Term	378.60	IVR A3+ (IVR A Three Plus)	-	-	-
2.	Fund Based Bank Facilities- PCFC (Proposed)	Short Term	404.60	IVR A3+ (IVR A Three Plus)	-	-	-
3.	Non Fund Based Facilities- Advance Bank Guarantee (Sanctioned)	Long Term	464.80	IVR BBB/Stable (IVR Triple B with stable outlook)	-	-	-
4.	Non Fund Based Facilities- Advance Bank Guarantee (Proposed)	Long Term	405.00	IVR BBB/Stable (IVR Triple B with stable outlook)	-	-	-

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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



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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 Year	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Fund Based Bank Facilities- PCFC (Sanctioned)	-	-	-	378.60	IVR A3+ (IVR A Three Plus)
Short Term Fund Based Facilities- PCFC (Proposed)	-	-	-	404.60	IVR A3+ (IVR A Three Plus)
Long Term Non Fund Based Facilities- Advance Bank Guarantee (Sanctioned)	-	-	-	464.80	IVR BBB/Stable (IVR Triple B with stable outlook)
Long Term Non Fund Based Facilities- Advance Bank Guarantee (Proposed)	-	-	-	405.00	IVR BBB/Stable (IVR Triple B with stable outlook)

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/DCX-cable-oct21.pdf>



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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Working capital (PCFC)	Simple
2.	Bank Guarantee	Simple

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.