Rating Rationale

September 12, 2017 | Mumbai

DCM Limited

Ratings downgraded to 'CRISIL BB+/CRISIL A4+'; Continues on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	**Rs.375.88 Crore**
Long Term Rating	**CRISIL BB+ (Downgraded from 'CRISIL BBB-'; Continues on 'Rating Watch with Negative Implications)**
Short Term Rating	**CRISIL A4+ (Downgraded from 'CRISIL A3'; Continues on 'Rating Watch with Negative Implications)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has downgraded its ratings on the bank facilities of DCM Ltd (DCM) to **'CRISIL BB+/CRISIL A4+'** from 'CRISIL BBB-/CRISIL A3,' the ratings remain on **'Rating Watch with Negative Implications'**.

CRISIL had, on October 28, 2016, placed the ratings on watch, following the company's announcement of a composite scheme (s) of arrangement, after its board meeting on October 15, 2016, because the scheme was awaiting approval from the National Company Law Tribunal (NCLT) and other regulatory approvals. As per the announcement, the company will carry out a business restructuring, involving DCM, DCM Realty and Infrastructure Ltd (DRIL; wholly-owned subsidiary of DCM, incorporated on October 6, 2016), Purearth Infrastructure Ltd, TIARA Investment Holdings, and DCM Nouvelle Ltd (wholly-owned subsidiary of DCM). The rating continues to be on Watch, as the demerger process and subsequent division of assets and liabilities are subject to regulatory approvals.

The rating downgrade reflects deterioration in the business and financial risk profiles. In the quarter ended June 30, 2017, operating margin dropped below 3% (vis-a-vis 7.6% over the same period, last year) and the company posted a loss of Rs 8.7 crore (vis-a-vis profit after tax of Rs 2.1 crore) on total revenue of Rs 257 crore (vis-a-vis Rs 250 crore). Profitability was mainly impacted by slightly higher rejection rates in the engineering segment, due to transition to BS-IV standards and tightening of yarn-cotton price spreads. Operating margin is expected to improve in the latter half of the fiscal but is likely to remain lower against level in the previous fiscal.

The decline in operating profitability resulted in weakening of the interest coverage ratio to 1.1 times during the quarter (vis-a-vis 2.33 times over the same period last fiscal) and net cash accruals to Rs 72 lakhs (compared to Rs 11.35 crore over the same period last fiscal). DCM has substantial debt repayment obligations of around Rs 25 crore in fiscal 2018. Even though, operating profitability is expected to improve during the latter half of the fiscal, net cash accrual for fiscal 2018 is expected to be lower than previous fiscal. However, company had cash and bank balance of Rs 16.34 crore as on March 31, 2017. Average bank limit utilisation was 65% over the eight months through August 2017 providing some support to liquidity.

DCM had reported loss of Rs 3.8 crore in fiscal 2017 against profit after tax (PAT) of Rs 3.3 crore in fiscal 2016 (including non-recurring liability write-backs of over Rs 23 crore). Due to weak profitability over the past few fiscals, adjusted debt to adjusted networth ratio steadily rose to 1.6 times in fiscal 2017, from 1.1 times in fiscal 2014, and is expected to remain above 1.6 times over the medium term.

CRISIL believes DCM will continue to benefit from extensive experience of its promoters and its strong networth. However, it will remain exposed to volatility in cotton yarn prices and offtake from the automotive sector.

Key Rating Drivers & Detailed Description
Strengths
* **Extensive experience of the promoters**: DCM was incorporated in 1889, by the promoter, late Mr Lala Shriram. Presence of over 120 years in the cotton yarn business, and established relationships with customers, and original equipment manufacturers in the engineering division, will continue to support the business risk profile.

* **Strong networth and moderate leverage**: As on March 31, 2017, adjusted networth was Rs 224 crore. Total outside liabilities to adjusted networth ratio was moderate at 2.02 times.

Weakness
* **Working capital intensity in operations**: Operations were moderately working capital intensive, as reflected in gross current assets of 138 days as on March 31, 2017, due to large inventory and receivables, and modest payables from suppliers.

* **Vulnerability to volatile cotton yarn prices and offtake from the automobile sector**: Operating margin has fluctuated sharply between 4.1% and 8.9% over the five years through fiscal 2017 (combining business and financial risk profiles of DCM and DCME for the fiscals prior to 2016), as profitability remained susceptible to movement in cotton yarn prices and incremental offtake from the

automobile sector. The grey iron castings (engineering) segment reported loss before interest and taxes (LBIT) of Rs 23 crore in fiscal 2017, compared to loss of Rs 20 crore in the previous fiscal. The segment remained less profitable even during the first quarter of fiscal 2018 with LBIT of Rs 3.4 crore, compared to a profit before interest and taxes of Rs 2 lakhs over the same period last fiscal.

About the Company
DCM (formerly, Delhi Cloth and General Mills Company Ltd) was incorporated in 1889, and is currently headed by Dr. Vinay Bharat Ram. The company manufactures cotton yarn at its unit in Hissar, Haryana, which has 114,000 spindles. The company is listed on the Bombay Stock Exchange and the National Stock Exchange. It also operates in the information technology (IT) infrastructure services segment, and provides services such as system administration, storage management, backup recovery, disaster management, and databases. DCM also has presence in real estate. The engineering products division was set up in 1974, at Ropar, Punjab, as a division of DCM, and was hived off into DCME in 2004, following a debt restructuring exercise. DCME was amalgamated into DCM in fiscal 2016. The engineering division is one of India's large independent manufacturers of grey iron castings, and caters to the automotive segment (cars, multi-utility vehicles, tractors, light commercial vehicles, heavy commercial vehicles, and earth moving equipment). It specialises in cylinder heads, blocks, and housings.

For the quarter ended June 30, 2017, the company reported loss of Rs 8.7 crore on total revenue of Rs 257 crore, compared to profit after tax (PAT) of Rs 2.1 crore on total revenue of Rs 250 crore, during the same period last year.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs. Cr.	956	869
Profit After Tax	Rs. Cr.	-3.8	3.3
PAT Margins	%	-0.4	0.4
Adjusted Debt/Adjusted Net worth	Times	1.61	1.53
Interest coverage	Times	1.98	1.34

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Facility	Allotment date	Coupon rate (%)	Maturity date	Amount (Rs crore)	Rating assigned with outlook
NA	Letter of credit & Bank Guarantee	NA	NA	NA	13.25	CRISIL A4+/Watch Negative
NA	Cash Credit	NA	NA	NA	136.0	CRISIL BB+/Watch Negative
NA	Bill Discounting	NA	NA	NA	75.0	CRISIL BB+/Watch Negative
NA	Term Loan	NA	NA	Jan-2023	116.08	CRISIL BB+/Watch Negative
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	25.55	CRISIL BB+/Watch Negative
NA	Overdraft	NA	NA	NA	10	CRISIL A4+/Watch Negative

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	362.63	CRISIL BB+/Watch Negative/ CRISIL A4+/Watch Negative	09-06-17	CRISIL BBB-/Watch Negative/ CRISIL A3/Watch Negative	28-10-16	CRISIL BBB-/Watch Negative/ CRISIL A3/Watch Negative	05-06-15	CRISIL BBB/Stable/ CRISIL A3+	20-03-14	CRISIL BBB/Positive/ CRISIL A3+	CRISIL BBB-/Stable/ CRISIL A3
				17-05-17	CRISIL BBB-/Watch Negative	19-01-16	CRISIL BBB-/Negative/ CRISIL A3					
Non Fund-based Bank Facilities	LT/ST	13.25	CRISIL A4+/Watch Negative		No Rating Change	28-10-16	CRISIL A3/Watch Negative		No Rating Change	20-03-14	CRISIL A3+	CRISIL A3
						19-01-16	CRISIL A3					

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bill Discounting	75	CRISIL BB+/Watch Negative	Bill Discounting	75	CRISIL BBB-/Watch Negative
Cash Credit	136	CRISIL BB+/Watch Negative	Cash Credit	136	CRISIL BBB-/Watch Negative
Letter of credit & Bank Guarantee	13.25	CRISIL A4+/Watch Negative	Letter of credit & Bank Guarantee	13.25	CRISIL A3/Watch Negative
Overdraft	10	CRISIL A4+/Watch Negative	Overdraft	10	CRISIL A3/Watch Negative
Proposed Long Term Bank Loan Facility	25.55	CRISIL BB+/Watch Negative	Proposed Long Term Bank Loan Facility	25.55	CRISIL BBB-/Watch Negative
Term Loan	116.08	CRISIL BB+/Watch Negative	Term Loan	116.08	CRISIL BBB-/Watch Negative
Total	375.88	--	Total	375.88	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Criteria for rating Short-Term Debt (including Commercial Paper)

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CRISIL has revised its rating symbols and definitions with effect from July 11, 2011, to comply with the SEBI circular, 'Standardisation of Rating Symbols and Definitions'. The revised rating symbols carry the prefix, 'CRISIL'. The rating symbols for short-term instruments have been revised to 'CRISIL A1', 'CRISIL A2', 'CRISIL A3', 'CRISIL A4', and 'CRISIL D' from the earlier 'P1', 'P2', 'P3', 'P4', and 'P5', respectively. The revision in the rating symbols and definitions is not to be construed as a change in the ratings. For details on revised rating symbols and definitions, please refer to the document, 'Revision of Rating Symbols and Definitions', at the link, **http://www.crisil.com/ratings/credit-rating-scale.html**