

Press Release

Technocom

October 01, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 38.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.38.00 crore of bank facilities of Technocom (TC). The outlook is '**Stable**'.

Technocom (TC) is a proprietorship concern established in 1984 by Mr. Dwarka Prasad Didwania. TC provides signaling and telecom services to the Indian Railways. The firm largely undertakes designing, testing, installation and maintenance of signaling systems for Indian Railways.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of TC while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

The firm has a long execution track record of 36 years in the railway infrastructure industry and is one of the leaders in Assam. The proprietor of the firm Mr. Dwarka Prasad Didwania, possesses more than three decades of experience in the railway signaling and infrastructure industry. The firm has a long presence in this sector and has established a healthy relationship with Indian Railway.

Steady profitability margin

The firm has constantly reported healthy profitability margins as reflected from operating margins at 8.43 per cent in FY2020 (Prov.) as compared to 7.16 per cent in the previous year. This improvement in profitability margin is on account of a decrease in raw material price along with a decrease in job work expenses.

The net profitability margin of the firm also stood healthy at 7.14 per cent in FY2020 (Prov.) as compared to 6.40 per cent in the previous year. Acuite believes the profitability margin of the firm will be sustained at healthy levels over the medium term backed by their focus on the bottom-line and bid in projects accordingly.

Comfortable financial risk profile

The financial risk profile of the firm is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the firm stood healthy at Rs.65.26 crore in FY 2020 (Prov.) as compared to Rs 59.79 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood low at 0.17 times as on March 31, 2020 (Prov.) when compared to 0.15 times as on March 31, 2019. Interest coverage ratio (ICR) stood at 6.32 times in FY2020 (Prov.) as against 8.61 times in FY 2019. The net cash accruals to total debt (NCA/TD) stood at 0.43 times in FY2020 (Prov.) as compared to 0.54 times in the previous year. Going forward, Acuite believes the financial risk profile of the firm will remain healthy on account of steady cash accruals in the absence of any major debt funded capex plan.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation marked by high gross current asset (GCA) days of 265 days in FY2020 (Prov.) as compared to 222 days in the previous year. This is on account of high inventory days of the firm at 238 days in FY2020 (Prov.) as against 151 days in the previous year. This high inventory day of the firm is mainly due to increase in work-in-progress inventory during the year-end, which coincided with the lockdown period. The debtor days of the firm stood comfortable at 42 days in FY2020 (Prov.) as compared to 49 days in the previous year.

Moderate scale of operation

Though the firm has started operation since 1984, the revenue of the firm stood moderate at Rs.63.69 crore in FY2020 (Prov.) as compared to Rs.75.58 crore in the previous year. The revenue of the firm has declined on account of lower execution of the project during March 2020 due to the outbreak of COVID-19. The firm has earned Rs.10.00 crore till August 2020 (Provisional). However, the firm has a healthy unexecuted order book of Rs.126.53 crore as on August 2020 imparting revenue visibility over the medium term.

Rating Sensitivity

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

Material Covenant

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals of Rs.4.63 crore as against nil long term debt obligations in FY2020 (Prov.). The cash accruals of the firm are estimated to remain in the range of around Rs. 3.48 crore to Rs. 5.84 crore during 2021-23 against Rs. 0.24 crore in FY2022 and Rs.0.48 crore in FY2023 of long term debt obligation. The bank limit of the firm has been only ~ 20 percent utilized during the last seven months ended in August 2020. Further, the liquidity of the firm is also strengthened by the unencumbered cash of Rs.0.26 crore. The current ratio of the firm also stood healthy at 2.81 times in FY2020 (Prov.). The working capital management of the firm is marked by Gross Current Asset (GCA) days of 265 days in FY2020 (Prov.). Moreover, the firm has availed the loan moratorium till Aug 2020 for cash credit. The firm has also been sanctioned with COVID emergency fund of Rs.1.47 crore, which is yet to be disbursed. The said loan is to be repaid in 4 years, including 1 year of a moratorium. Hence, Acuite believes that this short term funding will further ease the liquidity position of the firm. Acuite believes that the liquidity of the firm is likely to remain strong over the medium term on account of healthy cash accruals against long term debt repayments over the medium term.

Outlook: Stable

Acuite believes the outlook on TC's rated facilities will remain 'Stable' over the medium term on account of the firm's experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm registers a sustained growth in revenue while sustaining profit margins and maintaining a comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' if there is a steep decline in the firm's operating profit margins or in case of a significant deterioration in the firm's capital structure on account of larger than envisaged working capital borrowings and further deterioration in working capital management.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	63.69	75.58
PAT	Rs. Cr.	4.55	4.84
PAT Margin	(%)	7.14	6.40
Total Debt/Tangible Net Worth	Times	0.17	0.15
PBDIT/Interest	Times	6.32	8.61

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
31-Jan-2019	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	28.00	ACUITE A3 (Reaffirmed)
27-Dec-2017	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Upgraded)
02-Dec-2016	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Downgraded)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Downgraded)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	March 2022	28.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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