

Press Release

Technocom

July 25, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	28.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	38.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to 'ACUITE BB+' (read as ACUITE double B plus) from 'ACUITE BBB-' (read ACUITE triple B minus) and the short term rating to 'ACUITE A4+' (read as ACUITE A four plus) from 'ACUITE A3' (read as ACUITE A three) on the Rs.38.00 crore of bank facilities of Technocom (TC). The outlook is 'Stable'.

The rating downgrade is driven by a moderation in the business risk profile of the entity which reflects in their dipping profitability levels and moderate order book position. The rating also reflects the elongated working capital management of the firm along with high utilization of their non-fund based limits. The rating also factors in the longstanding experience of the management and a comfortable financial risk profile.

About the Company

Technocom (TC) is a partnership firm 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

Long track record of operation and experienced management

The firm has a long execution track record of nearly four decades in the railway infrastructure

industry and is one of the leaders in Assam. The founder partner 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.

Comfortable financial risk profile

The financial risk profile of the firm is marked by healthy net worth, low gearing and moderate debt protection metrics. The net worth of the firm stood healthy at Rs.69.68 crore in FY 2022 (Prov.) as compared to Rs. 74.14 crore in FY2021. However, this decrease in networth is on account of capital withdrawn from the business during the period. The gearing of the firm stood low at 0.13 times as on March 31, 2022 (Prov.) when compared to 0.09 times as on March 31, 2021. Interest coverage ratio (ICR) of the firm stood moderate at 1.36 times in FY2022 (Prov.) as against 1.21 times in FY 2021. The debt service coverage ratio (DSCR) of the firm stood moderate at 1.36 times in FY2022 (Prov.) as compared to 1.21 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.19 times in FY2022 (Prov.) as compared to 0.11 times in FY2021. Going forward, Acuité believes the financial risk profile of the firm will improve on account of increase in net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Working capital intensive nature of operation

The working capital management of the firm is marked by high gross current asset (GCA) days of 395 days in FY2022 (Prov.) as compared to 727 days in FY2021. Further, the GCA days of the firm had significantly increased to 727 days in FY2021 as compared to 265 days in FY2020. This significant increase in GCA days in FY2021 is mainly on account of increase in inventory holding period, which mainly comprises of work-in-progress inventory during 31st March 2021 due to the outbreak of COVID-19. However, the inventory days of the firm has improved and still stood high at 267 days in FY2022 (Prov.) as compared to 428 days in the previous year. The collection period of the firm is at 47 days in FY2022 (Prov.) as compared to 152 days in the previous year. Acuité believes that the ability of the firm to manage its working capital operations efficiently will remain a key rating sensitivity.

Moderate scale of operation coupled with declining profitability margin

Though the firm has started operation from 1984, the scale of operation of the firm stood moderate at Rs.73.62 crore in FY2022 (Prov.) as compared to Rs.35.46 crore in the previous year. This increase in revenue is on account of increase in work order execution during the period. Going forward, Acuité believes that the revenue of the firm will increase on account of moderate unexecuted order book of Rs.128.00 crore as on April 2022.

The operating profitability margin of the firm has declined to 8.58 per cent in per cent in FY2022 (Prov.) as compared to 12.21 per cent in the previous year. This decrease in operating profitability is mainly due to increase in job work expenses during the period. Acuité believes that the profitability margin of the company will sustain at the same level backed by in-built price escalation clause that provides cushion for covering the increased input cost. Further, the contracts of the firm with the Indian Railways are suitably guarded against the fluctuation in the raw material prices owing to the built - up price escalation clause. This helps the firm from any large variation in the raw material prices, thus protecting the operating margins to a certain extent. Moreover, the net profitability margin of the firm stood almost flattish at 2.11 per cent in FY2022 (Prov.) as compared to 1.92 per cent in the previous year.

Tender based nature of operations and competitive industry

The infrastructural contracting sector is marked by the presence of several mid to big sized players. The firm faces intense competition from other players. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been operating in the industry for more three decades.

Rating Sensitivities

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

Material covenants

None

Liquidity Position

Stretched

The firm has stretched liquidity position marked by low net cash accruals of Rs.1.67 crore in FY2022 (Prov.) as against of Rs.0.76 crore in the previous year. The cash accruals of the firm are estimated to remain in the range of around Rs. 1.78 crore to Rs. 2.25 crore during 2023-24 as against of nil long term debt obligations. The non-fund based limit of the firm has been ~83 percent utilized during the last six months ended in May 2022. The Gross Current Asset (GCA) days of the firm stood high at 395 days in FY2022 (Prov.). However, the current ratio of the firm stood comfortable at 3.67 times in FY2022 (Prov.). Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals against nil long debt repayments over the medium term.

Outlook: Stable

Acuité 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 improving their 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 elongation in working capital management.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	73.62	35.45
PAT	Rs. Cr.	1.55	0.68
PAT Margin	(%)	2.11	1.92
Total Debt/Tangible Net Worth	Times	0.13	0.09
PBDIT/Interest	Times	1.36	1.21

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Oct 2020	Bank Guarantee	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
31 Jan 2019	Bank Guarantee	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
27 Dec 2017	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
02 Dec 2016	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Downgraded from ACUITE A3)
07 Sep 2015	Cash Credit	Long Term	4.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Upgraded from ACUITE A4+)
12 Sep 2014	Cash Credit	Long Term	4.50	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A4+ Downgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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