



Press Release
Technocom
October 20, 2023
Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.38.00 crore bank facilities of Technocom (TC). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation factors in the steady business position of the firm as reflected from its growing revenue trend in current year and healthy order book position. The revenue of the firm increased to Rs.103.38 crore in FY2023 as compared to Rs.74.88 crore in FY2022. Technocom has an unexecuted healthy order book position to the tune of about Rs.115.00 crores as on August 31st, 2023. The ratings also factor in the established track record of the management in the industry. The rating also gets comfort from the firm's financial risk profile characterised by healthy net worth, comfortable gearing and moderate debt protection metrics. However, these strengths are partially offset by intensive working capital operations, and tender based nature of operations and competitive industry.

About the firm

Established in 1984 by Mr. Dwarka Prasad Didwania, TC operates as a partnership firm situated in Guwahati, Assam. TC provides signaling and telecom services to the Indian Railways. The firm is actively involved in tender-based contracts, covering the design, testing, installation, and maintenance of signaling systems for the Indian Railways. Additionally, it has ventured into a new segment in FY2023, catering to household contracts for piped water supply under the 'Jal Jeevan Mission'. Overseeing the firm are partners Mr. Dwarka Prasad Didwania, Mr. Mayank Didwania, and Mrs. Puspa Didwania.

Standalone (Unsupported) Rating

None

Analytical Approach

Acuité 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 almost four decades in the railway infrastructure

industry and is a key player in Assam. Mr. Dwarka Prasad Didwania, the founder partner in the firm, brings more than three decades of experience in railway signaling and infrastructure industry. The firm has cultivated a lasting presence in the industry, nurturing a strong relationship with Indian Railways. The revenue of the firm increased to Rs.103.38 crore in FY2023 as compared to Rs.74.88 crore in FY2022. Technocom has an unexecuted healthy order book position to the tune of about Rs.115.00 crores as on August 31st, 2023, which provides revenue visibility over the medium term. The firm has already attained revenues of Rs. 24 Cr for 3 months ended August 2023 in FY2024.

However, the firm experienced a dip in operating profit margin, decreasing to 7.54 percent in FY2023 from 8.90 percent in FY2022, mainly attributed to an upswing in job work expenses during the period.

Acuité believes that the firm's profitability margin will be sustained at this level, supported by an in-built price escalation clause that acts as a buffer against increased input costs. Additionally, the firm's contracts with government authorities are adequately safeguarded against fluctuations in raw material prices through built-in price escalation clauses. This strategic measure shields the firm from significant variations in raw material prices, thereby protecting operating margins to a certain extent. Acuité believes that the firm will continue to benefit from the extensive experience of the partners in the railway industry coupled with its long track record of operations over the medium term.

- **Healthy financial risk profile**

The firm's financial risk profile is marked by healthy net worth, comfortable gearing and moderate debt protection metrics. The tangible networth of the firm stood at Rs.71.57 Cr as on March 31, 2023 from Rs.70.43 Cr as on March 31, 2022 due to accretion of reserves. The gearing of the firm stood moderate at 0.13 times as on March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.23 times as on March 31, 2023. The moderate debt protection metrics of the firm is marked by Interest Coverage Ratio at 1.41 times as on March 31, 2023 and Debt Service Coverage Ratio at 1.41 times as on March 31, 2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.25 times as on March 31, 2023.

Acuité believes that the financial risk profile of the firm will remain healthy backed by steady accretion to reserves thereby improving its networth and moderate debt protection metrics in the absence of any debt funded capex plans over the medium term.

Weaknesses

- **Working capital intensive nature of operation**

The working capital management of the firm is intensive marked by improving but high Gross Current Assets (GCA) of 266 days in March 31st 2023 as compared to 416 days in March 31st 2022. The GCA days is high primarily on account of high inventory. The inventory holding stood at 109 days as on March 31st, 2023 as compared to 264 days in March 31st, 2022. However, the debtors stood at 18 days in FY2023 compared to 11 days in FY2022. Further, the GCA days of the firm has also emanates from the other current asset, which mainly consists of loans and advances and statutory deposits. Against this, the firm has substantial dependence on its suppliers and creditors to support the working capital; creditors stood at 22 days as on March 31st, 2023. The fund based limit remained utilized at ~43.47 per cent over the six months ended August, 2023. Acuité believes that the ability of the firm to manage its working capital operations efficiently will remain a key rating sensitivity.

- **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 than three decade.

Rating Sensitivities

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

All Covenants

None

Liquidity Position

Adequate

The firm has an adequate liquidity marked by net cash accruals of Rs.2.27 Cr as on March 31st, 2023 as against nil long term debt repayment over the same period. The current ratio stood comfortable at 4.91 times as on March 31st, 2023. The cash and bank balance stood at Rs.12.20 Cr as on March 31, 2023. Further, the fund based limit remained utilized at ~43.47 per cent over the six months ended August, 2023. Moreover, working capital management of the firm is intensive marked by improving albeit high Gross Current Assets (GCA) of 266 days in March 31st, 2023 as compared to 416 days in March 31st, 2023. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of steady cash accruals and absence of any debt funded capex plans.

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 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	103.38	74.88
PAT	Rs. Cr.	2.17	1.52
PAT Margin	(%)	2.10	2.03
Total Debt/Tangible Net Worth	Times	0.13	0.13
PBDIT/Interest	Times	1.41	1.32

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

Not Applicable

Any other information

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Jul 2022	Bank Guarantee	Short Term	28.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
01 Oct 2020	Bank Guarantee	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

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

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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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