

Press Release

Technocraft Associates

October 16, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 12.50 crore bank facilities of TECHNOCRAFT ASSOCIATES. The outlook is '**Stable**'.

Technocraft associates (TA) is a Mumbai-based proprietorship firm, which was established in the year 2006 by Mr. Vishnu Banwani. The firm is into trading of uniforms, textiles, textile made ups, solar equipment and other merchandise products. Further, the firm has started trading in furniture products mainly for Wipro and Nilkamal. The firm supplies its products to Institutional, semi-government and Government organisations such as Municipal Corporations of Greater Mumbai (MCGM) and Integrated Child Development Services (ICDS) among others.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the TA to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Mumbai-based, TA was established in 2006; thus, the firm has an operational track record of over a decade in the trading industry. The proprietor, Mr. Vishnu Banwani, has more than two decades of experience in the industry. The long track record of operations and experience of the management have helped the firm develop healthy relationships with its customers and suppliers. The same is also reflected in healthy operating margin of 11-14 per cent from the last three years through FY2019. The revenues, however, declined significantly in FY2019 to Rs. 31.69 crore from Rs. 41.54 crore in FY2018. The decline was mainly due to order received at the year end and the same was executed during Q1FY2020. Currently, the firm has order book position of Rs. 133.24 crore to be executed by FY2021, giving the revenue visibility over near to medium term. Acuite believes that the business risk profile is expected to improve with addition of new clients and repeat business from its existing clientele.

- **Healthy financial risk profile**

The firm's financial risk profile is healthy as on 31 March, 2019. The Net worth is comfortable at Rs. 12.65 crore as on 31 March 2019 as against Rs. 8.81 crore as on 31 March 2018. TA has no outstanding debt as on March 31, 2019. Further, ICR (Interest Coverage Ratio) was healthy and stood at 29.24 times in FY2019 and 20.25 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) ratio is comfortable at 0.44 times as on 31 March, 2019 against 1.38 times as on 31 March, 2018. Acuite believes that the financial risk profile of the firm is expected to be healthy on account of modest accretions to reserves and in the absence of major debt funded capital expenditure.

Weaknesses

- **High Customer and Supplier Concentration Risk**

The firm is exposed to customer concentration risk as around 99 per cent of its total sales in FY2019 have been derived from a single customer - Municipal Corporation of Greater Mumbai (MCGM). Further, the firm has done its total purchases from Mafatlal Industries Limited in FY2019. Hence, the firm

is exposed to customer and supplier concentration risk and the ability of the firm to increase the scale of operations and customer base would be the key rating sensitivity in the medium term. Acuite believes that the firm entering into trading of furniture products will help in diversifying customer as well as supplier base.

• Working capital intensive operations

TA's operations are working capital intensive marked by GCA (Gross Current Assets) of 162 days in FY2019 against 160 days in FY2018. This is mainly on account of high debtors and inventory of 76 days and 81 days, respectively, in FY2019. High debtor days are on account of extended credit terms with MCGM for around 120-150 days. Inventory days are high on account of cancellation of order by the ICDS Jaipur in FY2018. Acuite believes that operations are expected to improve on account of order received for the same product resulting in reduction in inventory in near to medium term.

• Competitive and fragmented industry and tender based business

TA operates in a highly fragmented industry with limited entry barriers, wherein the presence of a large number of players in the sector limits the bargaining power with customers. Further, the firm mainly caters to the government and semi-government bodies, which are tender based and the revenue growth depends on its ability to successfully bid for tenders.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs. 55.00-65.00 crore), while maintaining profitability margin of around 14-15 per cent over the medium term.

Material Covenants

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals against no debt obligations. The firm generated cash accruals of Rs. 4.80 crore for FY2019 against no debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 6.00 crore to Rs. 10.00 crore during 2020-22 against no debt obligation for the same period. The firm has working capital intensive operations marked by GCA days of 162 days for FY2019. This is mainly due to high level of inventory maintained due to cancellation of an order. The firm maintains unencumbered cash and bank balances of Rs. 0.04 crore as on 31 March, 2019. The current ratio stood at 2.72 times as on 31 March, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against no debt obligation in near to medium term.

Outlook: Stable

Acuite believes that TA will maintain a 'Stable' outlook on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while maintaining its operating profitability. Conversely, the outlook may be revised to 'Negative' if the firm reports lower than expected revenues or deterioration of the financial risk profile owing to more than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	31.69	41.54	23.14
EBITDA	Rs. Cr.	4.66	4.70	2.63
PAT	Rs. Cr.	4.69	4.47	2.43
EBITDA Margin	(%)	14.72	11.32	11.38
PAT Margin	(%)	14.79	10.76	10.49
ROCE	(%)	45.27	57.05	39.35
Total Debt/Tangible Net Worth	Times	0.00	0.00	0.00
PBDIT/Interest	Times	29.24	20.25	11.14
Total Debt/PBDIT	Times	0.00	0.00	0.00
Gross Current Assets (Days)	Days	162	160	121

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Aug-2018	Cash Credit	Long Term	3.50	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
05-Feb-2018	Cash Credit	Long Term	3.50	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	8.50	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Reaffirmed)

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