

Press Release

Technocraft Associates

January 08, 2021



Rating Upgraded & Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BB**' (read as ACUITE double B) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as ACUITE A four plus) on the Rs.12.50 Cr bank facilities of Technocraft Associates (TA). The outlook is '**Stable**'.

The upgrade in the rating reflects the significant improvement in the revenues in FY2020. The rating also factors the healthy financial risk profile with comfortable debt protection metrics and adequate liquidity position marked by judicious utilization of the working capital facilities.

About the Firm

Mumbai – based, TA was established as a proprietorship firm in 2006 by Mr. Vishnu Banwani. The firm is engaged in trading of uniforms, textiles, textile made ups, solar equipment and other merchandise products. The firm has also diversified into civil works for which it has a dedicated team in place. The firm supplies its products to Institutional, Semi-government and Government organizations such as Municipal Corporations of Greater Mumbai (MCGM), NSIC (National Small Industries Corporation) Telangana, MB&OCW (Maharashtra Buildings & Other Construction Workers) Welfare Board, among others.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TA to arrive at the rating.

Key Rating Drivers

Strengths

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

The firm, established in 2006, 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 similar line of business. The extensive experience has enabled the firm to establish healthy relationships with customers and suppliers.

Acuité believes that the established track record of operations, proprietor's extensive experience and healthy relationship with customers and suppliers is expected to support its business risk profile over the medium term.

• **Significant improvement in revenues**

The revenues of the firm stood at Rs.70.39 Cr in FY2020 against Rs.31.69 Cr in FY2019. Currently, the firm has an order book position of Rs.48.61 Cr as on December, 2020 to be executed by FY2022, giving the revenue visibility over near to medium term.

• **Healthy financial risk profile**

TA's financial risk profile is healthy marked by moderate net worth, comfortable total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. Tangible net worth of the firm stood moderate at Rs.15.56 Cr as on 31 March, 2020 against Rs.12.65 Cr as on 31 March, 2019. TOL/TNW stood at 0.67 times as on 31 March, 2020 against 0.44 times as on 31 March, 2019. The firm has no outstanding debt as on 31 March, 2020. Debt protection metrics of interest coverage ratio (ICR) stood comfortable at 15.46 times in FY2020.

Acuité believes that the financial risk profile of the firm is expected to remain comfortable on account of comfortable net worth backed by healthy cash accruals vis- à-vis nil debt repayment obligations and comfortable debt protection metrics.

Weaknesses

- **Working capital intensive operations**

TA's working capital operations are intensive marked by Gross Current Asset days (GCA) of 128 days in FY2020 against 162 days in FY2019 owing to high receivable days. The debtors' days were recorded at 100 days in FY2020 against 76 days in FY2019. The inventory days were recorded at 20 days in FY2020 against 81 days in FY2019. However, working capital bank lines remains utilized at ~70 percent for last nine months ended December, 2020.

Acuité believes that the working capital operations are expected to remain on similar lines with respect to the receivable cycle; which will remain a key rating sensitivity factor.

- **High customer and supplier concentration risk**

The firm is exposed to customer concentration risk as around 44 percent of its total sales in FY2020 have been derived from a single customer - Municipal Corporation of Greater Mumbai (MCGM). Further, the firm has done around 48 percent of its total purchases from Mafatlal Industries Limited in FY2020. 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.

- **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

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

TA has an adequate liquidity position as reflected by adequate net cash accruals against nil repayment obligations. The firm generated cash accruals of Rs.4.56 Cr-Rs.7.38 Cr during the last three years through 2018-20 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.4.05 Cr- Rs.5.42 Cr over the medium term, against nil repayment obligations. Unencumbered cash and bank balances stood at Rs.0.38 Cr as on 31 March, 2020 with a current ratio of 2.42 times in the same period. The working capital limits remains utilized at ~70 percent for last nine months ended December, 2020.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against nil repayment obligations.

Outlook: Stable

Acuité believes that TA will maintain a 'Stable' outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	70.39	31.69
PAT	Rs. Cr.	7.28	4.69
PAT Margin	(%)	10.34	14.79
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	15.46	29.24

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>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
16-Oct-2019	Cash Credit	Long Term	3.50	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
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 (Upgraded from ACUITE BB/ Stable)
Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Reaffirmed)

*Letter of Credit (Inland) is sublimit to Bank Guarantee limit to the extent of Rs.6.00 Cr.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Ashvita Ramesh Analyst - Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,500 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's rating scale and its definitions.