

Press Release

Recon Technologies Private Limited

August 06, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.49.22 (Enhanced from Rs.37.55 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**) to the Rs.37.55 crore bank facilities and also assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **A four plus**) to the Rs.11.67 crore bank facilities of RECON TECHNOLOGIES PRIVATE LIMITED (RTPL). The outlook is '**Stable**'.

Hyderabad-based RTPL was incorporated in the year 1996 by Mr. Venu Vinod. The company is an Original Equipment Manufacturer (OEM) of 'Powerol' brand diesel generator sets, authorised dealer for HITACHI Construction Machinery Co. Private Limited and processor of metal sheets. Further, it also undertakes repair and maintenance contract for government and private entities. RTPL has warehouses in LB Nagar, Nalgonda, Mahabubnagar and Kurnool.

Analytical Approach

Acuite has considered standalone business and financial risk profile of RTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long established presence of the promoters:**

RTPL was incorporated in 1996 by Mr. Venu Vinod (Managing Director) who has an experience of more than three decades with exposure to different fields like trading, manufacturing and real estate. The long established presence of the promoter has resulted in establishing healthy relationship with the customers and suppliers.

Acuite believes that promoter's entrepreneurial experience and healthy relationship with customers is expected to support its business risk profile over the medium term.

- **Moderate financial risk profile**

RTPL has moderate financial risk profile marked by moderate net worth, gearing and debt protection metrics. The net worth stood moderate at Rs.18.64 crore as on 31 March, 2019 (Provisional) as against Rs.15.94 crore as on 31 March, 2018. The gearing stood moderate at 2.40 times as on 31 March, 2019 (Provisional) as compared to 2.49 times as on 31 March, 2018. The total debt of Rs.44.78 crore as on 31 March, 2019 (Provisional) consists of term loan of Rs.12.16 crore for construction of new premise, unsecured loan of Rs.0.86 crore and working capital borrowings of Rs.31.76 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) deteriorated and stood at 3.38 times as on 31 March, 2019 (Provisional) as against 3.03 times as on 31 March, 2018 mainly on account of additional borrowing for capital expenditure during FY2019. The capex will generate earnings from FY19-20. Interest Coverage Ratio (ICR) stood healthy at 2.25 times in FY2019 (Provisional) as compared to 2.49 times in FY2018 mainly on account of higher interest cost and decline in operating income.

Weaknesses

• Elongated working capital cycle

RTPL has elongated working capital cycle marked by Gross Current Assets (GCA) of 87 days as on 31 March, 2019 (Provisional) over 59 days as on 31 March, 2018. The increase in GCA days is on account of higher inventory holding of 52 days in FY19 (Provisional) as compared to 24 days in FY18. The company has higher inventory requirement on account of multiple business segment and has to maintain inventory of new models of machineries. Further, the debtor turnaround days also increased to 34 days in FY19 (Provisional) from 25 days in FY18. This is partially supported by payables of around 20 days in FY19 (Provisional) as compared to 9 days in FY2018.

• Intense competition with cyclic principal industry

RTPL operates in a highly competitive industry where pressure from organised as well as unorganised players is faced, especially in diesel generator segments.

The company faces stiff competition from other dealers of Hitachi and other commercial automobile companies. The launching of new models at competitive prices by other players can impact the market share of Hitachi, which in turn can affect dealers including RTPL. Further, the operations of the company are also vulnerable to the inherent cyclicity of the construction industry.

Liquidity position

RTPL has adequate liquidity marked by net cash accruals of Rs.4.22-1.92 crore over FY2019 (provisional) to FY2016 vis-a-vis debt obligation of Rs.2.92- 0.34 crore over the same period. Expected cash accrual of Rs.4.88-7.07 crore over FY20-22 is likely to be sufficient against term debt obligation of ~Rs.2.10 crore per annum during FY20-22. Bank limit was fully utilised for the six months ended June 31, 2019. Utilisation is expected to remain high on account of large working capital requirement. The remaining accrual will cushion liquidity. Current ratio was low at 0.98 times as on March 31, 2019 (Provisional).

Outlook: Stable

Acuite believes that RTPL will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and established business presence. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of elongation of working capital cycle or deterioration in the financial risk profile or significant decline in revenue or profitability margins.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	204.23	217.41	174.43
EBITDA	Rs. Cr.	9.48	8.15	6.47
PAT	Rs. Cr.	2.88	2.78	2.03
EBITDA Margin	(%)	4.64	3.75	3.71
PAT Margin	(%)	1.41	1.28	1.16
ROCE	(%)	13.69	14.67	13.63
Total Debt/Tangible Net Worth	Times	2.40	2.49	2.52
PBDIT/Interest	Times	2.25	2.49	2.37
Total Debt/PBDIT	Times	4.69	4.64	4.99
Gross Current Assets (Days)	Days	87	59	66

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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.)	Rating/Outlook
22-Jul-2019	Cash Credit	Long Term	9.50	ACUITE BB / Stable (Reaffirmed)
	Term loans	Long Term	5.41	ACUITE BB / Stable (Reaffirmed)
	Channel Financing	Long Term	4.00	ACUITE BB / Stable (Reaffirmed)
	Channel Financing	Long Term	18.64	ACUITE BB / Stable (Reaffirmed)
25-May-2018	Cash Credit	Long Term	9.50	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	5.41	ACUITE BB / Stable (Assigned)
	Channel Financing	Long Term	4.00	ACUITE BB / Stable (Assigned)
	Channel Financing	Long Term	18.64	ACUITE BB / Stable (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	9.50	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.41	ACUITE BB / Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB / Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	18.64	ACUITE BB / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.18	ACUITE BB / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.49	ACUITE BB / Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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