

Press Release

Recon Technologies Private Limited

October 22, 2020



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs.49.22 Cr
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.49.22 crore bank facilities of Recon Technologies Private Limited (RTPL). The outlook is 'Stable'.

About the company

Hyderabad based, Recon Technologies Private Limited (RTPL) incorporated in the year 1996 by Mr. Venu Vinod, who is having experience of more than three decades in trading, manufacturing and real estate industry. Till 2007, the company was solely engaged in providing Repairs and Maintenance services of mechanical components pertaining to Earthmoving machineries and process plant equipment. In 2007, the company was appointed as an Original Equipment Manufacturer (OEM) for Mahindra and Mahindra Limited for manufacturing its 'Powerol' brand diesel generator sets. RTPL is licensed electrical contractors for Low Tension & High Tension works and CPRI certified panel board manufacturer. The company is also engaged in railway track and equipment refurbishing. RTPL is also an authorized distributor for TATA HITACHI hydraulic excavators in Andhra Pradesh and Telangana region. The company also sells spare parts and provides repairs and maintenance services.

The rating reaffirmation of the bank facilities of RTPL factors in its established track record of operations, experienced management and moderate working capital cycle. These rating strengths are partially offset by its below-average financial risk profile, declining revenues and profitability and intense competition with cyclic principal industry.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

Incorporated in 1996 by Mr. Venu Vinod, RTPL has a long track record of operations. Mr. Venu Vinod (Managing Director) has around three decades of experience in trading, manufacturing and real estate business. The promoters' extensive experience and long track record have helped RTPL in building established relationships with its suppliers and customers over the years. Acuité believes that the RTPL will continue to benefit from its experienced management, long track of business operations and well established relationships with clients and suppliers over the medium term.

• Moderate working capital cycle

RTPL's working capital management is moderate marked by moderate gross current assets (GCA) days of 89 as on March 31, 2020 (Provisional) as against 83 days as on March 31, 2019. Inventory days stood at 66 days as on March 31, 2020 (provisional) as against 51 days as on March 31, 2019. Debtor days stood at 30 days and 27 days as on March 31, 2020 (provisional) and as on March 31, 2019 respectively. The above are offset by creditor days of 30 days as on March 31, 2020 (provisional) and

10 days as on March 31, 2019. RTPL has utilized 98 percent of its working capital facilities over the last six months ended September 30, 2020. Acuité believes that RTPL's working capital cycle will remain moderate over the medium term

Weaknesses

- **Continuous decline in revenue and profitability**

RTPL's scale of operations has remained moderate; yet manifesting a declining trend over the last 3 years ending FY2020. The decline is due to RTPL's majority of customers/end-user industries being in the commercial vehicle (CV) segment of the automotive market, which has been witnessing subdued growth since FY2018. RTPL generated revenue of Rs.217.41 Cr in FY2018, Rs.203.80 Cr in FY2019 and Rs.167.22 Cr in FY2020 (Provisional). Out of the total sales, 25 percent of the revenue generated from Manufacturing activities, 72 percent from trading activities and 3 percent from services. The revenue dipped in FY2020 by 17.95 percent and FY2019 by 6.26 percent due to fall in revenue from trading business. RTPL has recorded revenue of Rs.60.21 Cr year-to-date until September, 2020 of FY2021 against Rs.99.35 Cr in the same period of last financial year; indicating a de-growth of 39.39 percent. The de-growth was owing to RTPL remaining non-operational in the month of April and May of FY2021 on account of the outbreak of COVID-19. Falling revenues were though escorted by improving operating margins due to a proportionate increase in revenue from manufacturing activities. Even so, RTPL's net profitability declined to Rs.0.84 Cr in FY2020 (provisional) from Rs.2.98 Cr in FY2019 underpinning lower revenue and operating profit in absolute terms; followed by high interest outgo. Acuité believes that revenue is estimated to show modest growth over the medium term; with stability expected in the net profit margins.

- **Below-average financial risk profile**

The financial risk profile of RTPL remained below-average with below-average capital structure and debt protection metrics. RTPL's net worth has been improving Y-o-Y on account of moderate net cash accruals generated over the years. The net worth of RTPL stood at Rs.19.08 Cr as on March 31, 2020 (provisional) as against Rs.18.22 Cr as on March, 2019. Debt to Equity (Gearing) improved from 3.05 times as on March 31, 2019 to 2.49 times as on March 31, 2020 (provisional). The gearing improved on account of a decrease in debt levels. Debt protection metrics remained below-average marked by interest coverage ratio and Net cash accruals to total debt (NCA/TD) stood at 1.38 times and 0.04 times in FY2020 (provisional) as against 2.28 times and 0.07 times in FY2019, respectively. The interest coverage ratio deteriorated on account of increase in interest cost. Debt Service Coverage Ratio (DSCR) deteriorated from 1.39 times as on March 31, 2019 to 0.88 times as on March 31, 2020 (Provisional). Acuité believes that in the absence of any debt-funded capex, RTPL financial risk profile is expected to improve in the medium term.

- **Intense competition with cyclic principal industry**

RTPL operates in a highly competitive industry where pressure from organized as well as unorganized 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.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- DSCR below and current ratio below 1.0 times over the medium term too

Any Material Covenants

None

Liquidity Position: Stretched

RTPL has stretched liquidity marked by moderate net cash accruals as compared to its maturing debt obligations, fully utilized bank limits and below unity current ratio. RTPL generated net cash accruals of Rs.3.77-1.84 Cr during the last three years through FY2018-20 vis-à-vis maturing debt obligations were in the range of Rs.1.79-2.80 Cr over the same period. RTPL generated NCA of Rs.1.84 Cr in FY2020 (Provisional) which were insufficient to repay its debt obligations of Rs.2.80 Cr. These were repaid by utilizing cash and bank balance of the company. The cash and bank balance stood at Rs.0.46 Cr as on March 31, 2020 (Provisional) as against Rs.2.39 Cr as on March 31, 2019. The cash accruals are estimated to be around Rs.3.00-4.50 Cr. during FY2021-23 vis-à-vis its repayment obligations of Rs.2.70 Cr. The current ratio stood at 0.78 times as on March 31, 2020 (provisional). The working capital limits of the company remained at 98 percent utilized for the last six months ended September, 2020. Acuité believes that improvement in profitability and extent of reliance on debt along with efficient use of its working capital limits will remain the key sensitivity factor to determine the liquidity of RTPL over the medium term.

Outlook: Stable

Acuité believes that RTPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability or efficient management of its working capital leads to better financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	167.22	203.80
PAT	Rs. Cr.	0.84	2.98
PAT Margin	(%)	0.50	1.46
Total Debt/Tangible Net Worth	Times	2.49	3.05
PBDIT/Interest	Times	1.38	2.28

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Aug-19	Cash Credit	Long Term	9.50	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	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)
	Term Loan	Long Term	6.18	ACUITE BB/ Stable (Assigned)
	Term Loan	Long Term	1.49	ACUITE BB/ Stable (Assigned)
	Bill Discounting	Short Term	2.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)
22-July-2019	Cash Credit	Long Term	9.50	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	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 Loan	Dec-2019	9.50	Sept 2024	5.93	ACUITE BB/ Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	30.79	ACUITE BB/ Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	18.64	ACUITE BB (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	6.18	ACUITE BB (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	1.49	ACUITE BB (Withdrawn)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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