



## Press Release

### RECON TECHNOLOGIES PRIVATE LIMITED

February 16, 2022

#### Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.22	ACUITE BB+   Stable   Upgraded	-
Bank Loan Ratings	3.00	-	ACUITE A4+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	49.22	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

#### Rating Rationale

Acuite 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.49.22 Cr. bank facilities of Recon Technologies Private Limited (RTIL). The outlook is '**Stable**'.

#### Reason for rating upgrade

The rating upgrade is on account of augmentation in the business risk profile followed by healthy growth in revenues with moderate profitability margins. The rating continues to factors in the established and long track record of operations of the company with extensive experience of the promoters in the Manufacturing & trading industry and strong long term relationships with its customers and suppliers, moderate working capital management and adequate liquidity position of the company. However, these strengths are partly offset by moderate financial risk profile and intense competition with cyclical end user industries.

#### About the Company

Hyderabad based, Recon Technologies Private Limited (RTPL) incorporated in the year 1996 by Mr. Venu Vinod. Till 2007, the company was solely engaged in providing Repairs and Maintenance services of mechanical components pertaining to Earth moving machineries and process plant equipment's. 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 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.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RTPL to arrive at

this rating.

## **Key Rating Drivers**

## **Strengths**

### **Established track record of operations with experienced management**

RTPL is based out of Hyderabad which was incorporated in the year 1996 by Mr. Venu Vinod reflecting an established track record of operations for more than two decades. The company is currently the authorized distributors of Tata Hitachi hydraulic excavators and OEM for Mahindra & Mahindra's powerol generators. The company majorly caters in Andhra Pradesh and Telangana region. The promoter of the company Mr. Venu Vinod (Managing Director) has around three decades of experience in trading, manufacturing and real estate business. The operations of the company are managed by the promoters as well as well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters has helped the company to established long and healthy relationships with its customers and suppliers over the years.

Acuité believes that 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.

### **Augmentation in business risk profile**

The revenue of the company stood at Rs.184.24 Cr. in FY21 registering a growth of ~12 percent YoY compared against Rs.164.52 Cr. in FY20. The improvement in revenues is on account of increase in demand of traded goods of the company i.e. Tata Hitachi excavators owing to increase in construction activities after severe impact in such activities due to covid-19 pandemic. Furthermore, the demand from both generators and distribution products continued to remain healthy during the current financial year as well reflected by ~27 percent YoY increase in sales to Rs.142.12 Cr. in 10MFY22. The rise in demand is majorly on account of high execution of construction activities and also supported by government push towards infrastructure in the country.

The operating profit margin of the company however witnessed marginal decline during FY21 which stood at 3.99 percent compared to 4.20 percent in FY20 on account of increase in cost of traded goods and other input costs. The Profit after Tax (PAT) of the company stood at Rs.8.51 Cr. in FY21 (including exceptional item of Rs.9.87 Cr.) compared against Rs.1.71 Cr. in FY20. The exceptional item includes profit from sales of land & buildings which is the company's old manufacturing plant.

Acuité believes that the growth in revenues and sustenance of its profitability margins are expected to support the overall growth of the company over the medium term.

### **Moderate working capital management**

The working capital management of the company are moderate marked by moderate and improved GCA days of 82 days for FY21 compared to 111 days for FY20. The company maintains moderate inventory levels around 51 days for FY21 as against 72 days for FY20. Subsequently, the debtor's collection period also marginally improved and stood low at 26 days for FY21 compared against 29 days for FY20. Furthermore, the creditor days stood low at 7 days for FY21 as against 31 days for FY20. As a result, the reliance of working capital limits remained high reflected by average utilization of its working capital limits of around 89 percent in last six months ended Dec' 2021.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

## **Weaknesses**

### **Moderate financial risk profile**

RTPL has moderate financial risk profile marked by tangible net worth of Rs.28.45 Cr. as on 31 March, 2021 as against Rs.19.94 Cr. as on 31 March, 2020. The improvement in net worth is attributable to higher accretion to reserves majorly on account of profit coming from the sales of land & buildings. The gearing level of the company improved and remained moderate at

1.45 times as on 31 March, 2021 as against 2.38 times as on 31 March, 2020. The improvement in gearing is majorly on account of increase in net worth followed by reduction in total debt outstanding of the company. The total outstanding debt of Rs.41.34 Cr. consists of working capital borrowings of Rs.26.36 Cr. and long term borrowings of Rs.14.97 crore as on 31 March, 2021.

The debt service coverage ratios also improved and remain moderate with improved Interest Coverage Ratio (ICR) of 3.54 times for FY21 against 1.73 times for FY20. The Debt Service Coverage Ratio (DSCR) also improved to 1.95 times for FY21 against 1.00 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.73 times as on March 31, 2021 against 3.42 times as on March 31, 2020.

Acuité believes that the financial risk profile of the company will continue to remain moderate on account of moderate profitability and no major debt funded capex over the medium term.

### **Intense competition and cyclical end user industries**

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**

- Significant improvement in scale of operations and profitability margins
- Stretch in the working capital cycle leading to stretched liquidity position

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

The company has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated net cash accruals of Rs.10.09 Cr. in FY21 (including exceptional profit of Rs.9.87 Cr.) compared against maturing debt obligations of Rs.3.87 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.3.5-6.11 Cr. during 2022-24 period while its matured debt obligations is estimated to be in the range of Rs.2.72 – 3.52 Cr. during the same period. The company reliance on working capital borrowings is relatively on the higher side marked by average utilization of working capital limits of ~89 percent during the last six months period ended Dec' 2021. The high reliance of working capital borrowings is majorly on account of moderate working capital management marked by GCA days of 82 days for FY21. Furthermore, the company maintains unencumbered cash and bank balances of Rs.0.84 crore as on March 31, 2021 and the current ratio also stood moderate at 1.17 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals compared against its matured debt obligations 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 efficiently

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.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	184.24	164.52
PAT	Rs. Cr.	8.51	1.71
PAT Margin	(%)	4.62	1.04
Total Debt/Tangible Net Worth	Times	1.45	2.38
PBDIT/Interest	Times	3.54	1.73

### 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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Oct 2020	Term Loan	Long Term	6.18	ACUITE BB (Withdrawn)
	Channel Financing	Long Term	18.64	ACUITE BB (Withdrawn)
	Term Loan	Long Term	5.93	ACUITE BB   Stable (Reaffirmed)
	Channel Financing	Long Term	30.79	ACUITE BB   Stable (Reaffirmed)
	Term Loan	Long Term	1.49	ACUITE BB (Withdrawn)
	Bills Discounting	Short Term	2.00	ACUITE A4+ (Withdrawn)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Withdrawn)
06 Aug 2019	Bills Discounting	Short Term	2.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	1.49	ACUITE BB   Stable (Assigned)
	Channel Financing	Long Term	4.00	ACUITE BB   Stable (Reaffirmed)
	Term Loan	Long Term	6.18	ACUITE BB   Stable (Assigned)
	Channel Financing	Long Term	18.64	ACUITE BB   Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BB   Stable (Reaffirmed)
	Cash Credit	Long Term	9.50	ACUITE BB   Stable (Reaffirmed)
22 Jul 2019	Channel Financing	Long Term	18.64	ACUITE BB   Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BB   Stable (Reaffirmed)
	Channel Financing	Long Term	4.00	ACUITE BB   Stable (Reaffirmed)
	Cash Credit	Long Term	9.50	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+   Stable   Upgraded ( from ACUITE BB )
Axis Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+   Stable   Upgraded ( from ACUITE BB )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE BB+   Stable   Upgraded
Axis Bank	Not Applicable	Term Loan	01-12-2019	8.75	01-09-2024	4.12	ACUITE BB+   Stable   Upgraded ( from ACUITE BB )
Axis Bank	Not Applicable	Working Capital Term Loan	01-10-2020	9.25	01-12-2024	7.50	ACUITE BB+   Stable   Upgraded



## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nitul Dutta Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nitul.dutta@acuite.in">nitul.dutta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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