

## Press Release

### Recon Technologies Private Limited

March 21, 2023



### Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.22	ACUITE BB   Stable   Downgraded	-
Bank Loan Ratings	3.00	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	49.22	-	-

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed the short-term rating to '**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**'.

#### Rationale for Rating Downgrade

The downgrade in the rating reflects deterioration in the operating performance of RTIL marked by declining profitability margins. The operating margins of the company deteriorated from 3.99 percent in FY21 to 3.05 percent in FY22. Also, the PAT margins deteriorated from 4.62 percent in FY21 to 0.05 percent in FY22. Such deterioration is seen on account of an increase in cost of traded goods and other input costs. Further, the rating also factors in the stretched liquidity position of the company, marked by low net cash accruals against repayment obligations and high reliance on bank debt to fund its working capital requirements. The average utilization of fund-based bank limits stood at ~95% percent for the working capital facilities for the past 09 months ended December 2022. Going forward, the company's ability to improve its liquidity position and improve its profitability margins over the medium term while maintaining its capital structure will remain a key rating monitorable.

#### 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.

#### >Improvement in operating income, albeit declining margins

The revenue of the company stood at Rs.206.73 Cr. in FY22 as against Rs.184.24 Cr. in FY21 registering a growth of ~12 percent YoY. The improvement in revenues is driven by higher volume sales traded goods of the company i.e., Tata Hitachi excavators owing to increase in construction activities. Also, the company increased the actual production of Diesel Generators on account of increased orders, as RTPL is appointed as an OEM for Mahindra and Mahindra Limited for manufacturing its brand 'POWEROL'. The company has generated revenue of Rs. ~Rs.230 Cr. in 11MFY23. The operating profit margin of the company however witnessed marginal decline during FY22 which stood at 3.05 percent compared to 3.99 percent in FY21 on account of increase in cost of traded goods and other input costs. The PAT margin also stood at 0.05 percent in FY22 as against 4.62 percent in FY21.

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 is moderate marked by moderate GCA days of 90 days in FY22 as against 82 days in FY21. The company maintains moderate inventory levels of around 48 days in FY22 as against 51 days for FY21. Generally, the inventory holding period that the company follows is 35-40 days. Subsequently, the debtor's collection period stood at 33 days in FY22 as against 26 days for FY21. Generally, the company does its major business on cash and carry basis, but at times it gives a credit period of 30 days to its customers. Furthermore, the creditor days stood at 26 days in FY22 as against 07 days in FY21. Generally, the company is allowed a credit period of 30 days from its suppliers. As a result, the reliance of working capital limits remained high reflected by average utilization of its working capital limits of around ~95 percent in last nine months ending Dec' 2022.

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

### Weaknesses

#### >Below Average financial risk profile

The financial risk profile of the company stood below average, marked by modest net worth, moderate gearing (debt-equity) and average debt protection metrics. The tangible net worth stood at Rs.28.54 crore as on 31 March 2022 as against Rs.28.42 crore as on 31 March, 2021. The total debt of the company stood at Rs.40.52 crore which includes short-term debt of Rs.28.79 crore, long-term debt of Rs.6.96 crore and CPLTD of Rs.4.77 crore as on 31 March, 2022. The gearing (debt-equity) stood at 1.42 times as on 31 March 2022 as compared to 1.45 times as on 31 March, 2021. Interest Coverage Ratio stood at 1.73 times for FY2022 as against 3.54 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 0.74 times in FY2022 as against 1.95 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.00 times as

on 31 March, 2022 as against 1.73 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.05 times for FY2022 as against 0.24 times for FY2021. 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 Stretched

The company's liquidity position is stretched, marked by low net cash accruals against repayment obligations and high reliance on bank debt to fund its working capital requirements. The average utilization stood at ~95% percent for the working capital facilities for the past 09 months ended December 2022. The company generated net cash accruals in the range of Rs.1.86 Crore in FY2022 against its maturity repayment obligations of Rs.4.77 crore in the same tenure. It is expected to generate sufficient cash accrual in the range of Rs.4.38-5.70 crores against the maturing repayment obligations of Rs.2.90-4.03 crore over the medium term. The working capital management of the company is moderate marked by moderate GCA days of 90 days in FY2022 as against 82 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.3.36 crore as on March 31, 2022. The current ratio stands at 1.06 times as on March 31, 2022, as against 1.17 times as on 31 March, 2021. Acuite believes that the liquidity of the company will remain stretched in the near to medium term on account of significant debt repayment in the near to 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 higher -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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	206.73	184.24
PAT	Rs. Cr.	0.11	8.51
PAT Margin	(%)	0.05	4.62
Total Debt/Tangible Net Worth	Times	1.42	1.45
PBDIT/Interest	Times	1.73	3.54

**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-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**

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Feb 2022	Term Loan	Long Term	4.12	ACUITE BB+   Stable (Upgraded from ACUITE BB )
	Cash Credit	Long Term	4.50	ACUITE BB+   Stable (Upgraded from ACUITE BB )
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	5.10	ACUITE BB+   Stable (Upgraded from ACUITE BB )
	Channel Financing	Long Term	25.00	ACUITE BB+   Stable (Upgraded from ACUITE BB )
	Working Capital Term Loan	Long Term	7.50	ACUITE BB+   Stable (Upgraded from ACUITE BB )
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A4+   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BB   Stable   Downgraded
Axis Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BB   Stable   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.65	ACUITE BB   Stable   Downgraded
Axis Bank	Not Applicable	Term Loan	01 Dec 2019	8.75	01 Sep 2024	Simple	3.07	ACUITE BB   Stable   Downgraded
Axis Bank	Not Applicable	Working Capital Term Loan	01 Oct 2020	9.25	01 Dec 2024	Simple	5.00	ACUITE BB   Stable   Downgraded

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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