

Press Release
Technical Associates Limited

February 13, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.350.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' (read as **ACUITE BBB plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.350.00 crore bank facilities of Technical Associates Limited. The outlook is '**Stable**'.

The Lucknow based Technical Associates Limited (TAL) started as a partnership firm in 1967 by Mr. Vishnu Agarwal. Later in 1988, the constitution was changed to private limited. The company promoted by Mr. Vishnu Agarwal, Mr. Narendra Kumar and Ms. Saroj Agarwal is engaged in manufacturing of power and distribution transformers. TAL has its manufacturing facilities located at Lucknow and Sitarganj.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the TAL to arrive at this rating.

Key Rating Drivers

Strengths

• **Established presence in the transformer segment**

TAL has more than 5 decades of experience in the transformer manufacturing segment. The company has an established market position and is one of the leading producers of various types of transformers in India. The promoter of the company, Mr. Vishnu Agarwal has an extensive experience of over five decades in the industry. The extensive industry experience of the promoters has helped the company generating healthy relations with various customers and suppliers. TAL has over the years generated healthy relations with various state electricity boards of Punjab, Haryana, Rajasthan, Uttar Pradesh, Karnataka among others.

Acuité expects the established position in the industry and healthy relations with both customers as well as suppliers will help the company to maintain stable credit profile in the medium term.

• **Healthy financial risk profile**

TAL has healthy financial risk profile marked by healthy net worth, gearing and debt protection measures. TAL's net worth stood at around Rs.158.51 crore as on March 31, 2018. The net worth has improved from Rs.128.53 crore as on March 31, 2016 mainly on account of healthy accretion to reserves. Acuité believes that the net worth of the company will increase backed by its healthy revenue growth and stable operating margins leading to healthy accretion to reserves. The company has followed a moderate financial policy in the past, with its peak gearing stood at 0.95 times as on March 31, 2016. The gearing of the company, however, has improved to around 0.51 times as on March 31, 2018. The aggregate debt of Rs.80.80 crore mainly consists of working capital borrowings and the company does not have any long term debt as on 31 March 2018. The coverage indicators stood healthy with Interest Coverage Ratio (ICR) stood at 3.42 times in FY2018 as against 3.62 times for FY2017 supported by better operating margins. The Total Outside Liabilities to Tangible Net Worth (TOL/TNW) ratio stood healthy at 0.91 times as on 31 March 2018 as against 1.46 times as on 31 March, 2017.

Acuité believes that the financial risk profile to remain healthy in near to medium term in absence of any major debt funded capex plan.

Weaknesses

• Uneven revenue trend

TAL reported revenues of Rs.279.08 crore in FY2018 as against Rs.373.23 crore in FY2017. The revenue decline in FY2018 was on account of lower utilization levels. Further for FY2019, the company has registered revenues of Rs.272.66 crore for the period April-December 2018 (Provisional). The uneven revenue trend is mainly on account of tender based nature of business as the majority of the customers are government entities. Any changes in the government policy can impact company's performance. TAL operates in highly competitive industry marked by presence of several established players as well as unorganized players which can have impact on the bargaining power of the company considering the tender based nature of operations. TAL has modest unexecuted order book position of Rs.198.00 crore and it has orders worth Rs.127.00 crore where the company is L1 as on 18 January 2019.

Acuite believes that the ability of the company to execute the orders in timely manner thereby sustaining the revenue growth while maintaining its profitability margins will be a key ratingsensitivity.

• Working capital intensive operations

The operations of TAL are working capital intensive marked by its gross current assets (GCA) of 200 days in FY2018 against 224 days in FY2017. The high GCA days on account of stretched receivables of 131 days for FY2018 as against 168 days in FY2017 as majority of the customers are government entities. The inventory days stood at 24 days for FY2018 as against 21 days in FY2017. However, the working capital cycle has improved in FY2019 which has reduced the company's reliance on the external working capital requirement. The average working capital limit utilization for past six months ended December 2018 stood at around 20 percent.

Acuite believes the ability of the company to sustain the current improvement in its working capital cycle for near to medium term will be a key rating sensitivity.

• Off balance sheet exposure in the form of performance bank guarantees

TAL gives performance bank guarantee for the manufacturing order it undertakes which is normally ranges from 5 percent to 10 percent of the total contract value. The outstanding bank guarantee position of the company stood at Rs.134.03 crore as on 31 December 2018 as against net worth of Rs.170.73 crore as on 31 December 2018 (Provisional).

Outlook: Stable

Acuite believes that TAL will maintain a Stable outlook over the medium term owing to its long standing presence in transformer segment. The outlook may be revised to 'Positive' if the scale of operations increases on the back of further increase in order book position, while maintaining its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition or if the financial risk profile deteriorates owing to higher-than-expected debt-funded capital expansion plans.

Liquidity position

TAL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.14.53 to Rs.22.06 crore during the last three years through 2017-18, while the company does not have any maturing debt obligations for the same period. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 200 in FY 2018. TAL maintains unencumbered cash and bank balances of Rs.2.48 crore as on March 31, 2018. The current ratio of the TAL stands at 1.73 times as on March 31, 2018. Acuite believes that the liquidity of the TAL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	279.08	373.23	307.03
EBITDA	Rs. Cr.	33.19	35.46	25.31
PAT	Rs. Cr.	14.48	16.69	7.85
EBITDA Margin	(%)	11.89	9.50	8.24
PAT Margin	(%)	5.19	4.47	2.56
ROCE	(%)	13.98	14.89	11.03
Total Debt/Tangible Net Worth	Times	0.51	0.68	0.95
PBDIT/Interest	Times	3.42	3.62	2.84
Total Debt/PBDIT	Times	2.12	2.34	3.81
Gross Current Assets (Days)	Days	200	224	287

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated August 27, 2018 had denoted the rating of Technical Associates Limited as 'CRISIL BBB+/Stable/CRISIL A2' (ISSUER NOT COOPERATING) on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BBB+/Positive/CRISIL A2' vide its press release dated June 13, 2017.

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>
- 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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB+/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE A2
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE A2

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About Acuité Ratings & Research:

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