

Press Release

Ducon Infratechnologies Limited

October 07, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.112.00 Cr.
Long Term Rating	ACUITE BB / Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has 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.112.00 Cr. bank facilities of Ducon Infratechnologies Limited (DIL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the established track record of operations and extensive experience of the promoter in the Industrial Machinery and moderate financial risk profile of the company over the years. Further, the rating also factors the unexecuted healthy order book position from reputed clientele such as NTPC Limited. However, the rating has been constrained by the deterioration in business risk profile of the company in last two years followed by working capital intensive nature of operations and stretched liquidity position of the company.

About the Company

Incorporated in March 2005, Maharashtra based Ducon Infratechnologies Limited (DIL) is the Indian arm of Ducon Technologies Inc., USA. The company is promoted by Mr Arun Govil, Ducon undertakes turnkey projects for setting up industrial pollution control and material handling systems. Ducon Infratechnologies Limited was setup in India to take advantage of opportunities in the Indian subcontinent in the field of Air Pollution Control, Bulk Material Handling and other related industrial projects. Being an EPC (Engineering Procurement & Construction) company, DIL has executed multiple projects during the last 14 years in India.

About the Group

The Ducon Group (DG) consist of two companies i.e. Ducon Infratechnologies Limited and its wholly owned subsidiary company Ducon Combustion Equipment Inc. (DCE).

In the year 2017, DIL has set up its wholly owned subsidiary company in the name of Ducon Combustion Equipment Inc. (DCE) in New York, USA in order to sell diversified combustion and power products. The products includes steam & power turbines, heat recovery steam generators and cogeneration plants using both gas and biomass fuels.

Analytical Approach

The team has consolidated the business and financial risk profiles of Ducon Infratechnologies Limited (DIL) and its wholly own subsidiary Ducon Combustion Equipment Inc. (DCE) together referred to as the 'Ducon Group' (DG). The consolidation is in view of the common management, same line of business and financial linkages between the entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established tracked record of operations along with experienced management**

Ducon promoted by Mr. Arun Govil (Managing Director), is engaged in undertaking EPC contracts for setting up industrial pollution control, material handling systems and dealing in IT hardware. The company forayed into FGD systems in thermal power plants along with Bulk Material Handling Services and Rural and Urban electrification including construction of substation etc. The promoter Mr. Arun Govil has gained experience of over three decades from overseas business in Ducon Technologies Inc and is ably supported by well experienced second line of management. The experience of promoters and well established track

record of operations helped the company to build a strong relationship with some of the reputed clientele in the country such as NTPC Limited, Steel Authority of India, IOCL to name a few.

Acuite believes that the company will sustain its existing business risk profile on back of an established track record of operations and experienced management over the medium term.

• **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate tangible net worth, gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs.145.67 Cr. as on 31 March, 2021 as against Rs.145.24 Cr. in the previous year. During the year, the unsecured loan from the promoters to the tune of Rs.65.82 Cr. as on 31 March, 2020 which was treated as quasi equity was converted into equity shares. The gearing level of the company stood at low at 0.45 times as on 31 March, 2021 compared to 0.39 times same period last year. The borrowings of the company includes only working capital borrowings of Rs.65.32 crore. The interest coverage ratio marginally decline to 1.06 times in FY21 as against 1.15 times in the previous year. The debt service coverage ratio stood at 1.05 times in FY21 as against 1.13 times in the previous year. The total liabilities to tangible net worth (TOL/TNW) remained at similar levels of 0.91 times as on 31 March, 2021. The debt to EBITDA also remained high at 4.97 times for FY21 as against 4.60 times for FY20.

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

Weaknesses

• **Deterioration in business risk profile in last couple of years**

The revenue of the company decline ~10 percent y-o-y and stood at Rs.341.95 Cr. in FY21 as against Rs.380.93 Cr. in FY20 and Rs.394.26 Cr. in FY19. The decline in revenues is mostly on account of decline in order book position of its core business i.e. FGD systems in last two years. However, the company was able to increase the business from electrification in the same period. Furthermore, the revenues were also impacted due to the ongoing covid-19 pandemic which restricted various movements across the country. The operating profit margin of the company improved marginally to 3.69 percent in FY21 as against 3.09 percent in FY20 majorly on account of decline in raw material costs. Further, the company generated PAT of Rs.0.42 crore in FY21 against Rs.0.86 crore in FY20. The decline in PAT is majorly on account of higher interest outgo.

Nevertheless, the operations of its USA subsidiary company started in Q1FY22 and started generating revenues from the same period. The total consolidated revenue of the company in Q1FY22 stood at Rs.94.08 Cr. and operating profit of Rs.1.97 Cr. during the same period. Also, the group has an unexecuted order book position of Rs.1126 Cr. as on July 31, 2021 reflecting revenue visibility over the medium term.

Acuite believes that the group's ability to improve the business risk profile over the medium term will be a key rating sensitivity.

• **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature marked by high Gross Current Assets (GCA) of 274 days for FY21 as against 245 days for FY20. The high GCA days is majorly on account of high receivable period which stood at 270 days for FY21 as compared against 240 days for FY20. DIL doesn't not have any inventory as the products are also customized as per client's requirement and it directly stores in the plant of the client. Furthermore, the creditor days was moderately increased to 66 days for FY21 as against 60 days for FY20. The high working capital intensive operations led to high reliance of bank borrowings which fully utilized during last six months ended July, 2021.

Acuite believes that the ability of the company to manage its working capital cycle will be a key rating sensitivity.

Rating Sensitivities

- Sustained growth in scale of operations and profitability
- Any stretch in working capital cycle led by higher receivables and deterioration in liquidity position

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity marked by high Gross Current Asset (GCA) days of 274 days for FY21. Further, the average bank limit utilization is almost fully utilized in last six months ended July, 2021. Furthermore, there have been over drawing in the working capital limits which are regularized within 30 days. However, the net cash accruals of the company stood at Rs.0.68 Cr. in FY21 as against nil repayment obligation during the same period. The company maintains unencumbered cash and bank balances of Rs.0.07 Cr. as on 31 March, 2021. The current ratio stood at 1.99 times as on 31 March, 2021. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of working capital intensive nature of operations and fully utilization of bank limits.

Outlook: Stable

Acuite believes that the company will maintain 'Stable' outlook in the medium term on account of the extensive experience of the promoters in the Industrial Machinery industry and healthy orders from reputed companies from the country. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle led by further delay in realizing receivables leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	341.95	380.93
PAT	Rs. Cr.	0.42	0.86
PAT Margin	(%)	0.12	0.23
Total Debt/Tangible Net Worth	Times	0.45	0.39
PBDIT/Interest	Times	1.06	1.15

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	57.00	ACUITE BB / Stable (Assigned)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A4+ (Assigned)

*Bank Guarantee includes sublimit of Letter of credit –Rs.7.00 Cr.

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About Acuite Ratings & Research:

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