

Press Release

Ducon Infratechnologies Limited

December 29, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	57.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	55.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	112.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating at '**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 Infra Technologies Limited (DIL). The outlook is '**Stable**'.

Rationale for the rating

The rationale behind reaffirmation in rating is on account of sustained operational performance, experienced management, adequate order book position. The above factors are underpinned by the stretched working capital cycle of the company, high working capital limit utilization, thin margins and average financial risk coverage profile.

About 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

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, L&T, IOCL to name a few. Acuité 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.

Revenue and Profitability

The company has registered the operating income of Rs.384.36 Crore in FY22 against Rs.341.95 Crore in FY21. The decline in revenue is on an account of decline in order book position and no new order was registered till FY21. Furthermore, the revenue was also impacted due to pandemic which restricted various movements across the country. The operating margins of the company has improved on an account of new orders allotted in FY22. The EBITDA Margins of the company is at 4.30 percent in FY22 against 3.69 percent in FY21 on an account of reduction in raw material prices. The PAT margins of the company is 1.15 percent in FY22 against 0.12 percent in FY21. In past the decline in PAT margin on an account of higher interest outgo.

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by tangible net worth, gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs.150.11 Crore in FY22 against Rs.145.67 Crore in FY21. The gearing level of the company stood at 0.55 times in FY22 against 0.45 times in FY21. The borrowings of the company include working capital borrowings and unsecured loans of Rs.82.45 Crore in FY22. The interest coverage ratio increased at 1.78 times in FY22 against 1.06 times in FY21. The debt service coverage ratio of the company is at 1.58 times as compared to 1.05 times in FY21.

Weaknesses

Working Capital Intensive nature of business

The operations of the company are working capital intensive in nature marked by Gross current assets days of 259 in FY22 against 271 days in FY21. Last year, the GCA days were higher on an account of high receivable days which stood at 266 days in FY21 but now it has decreased at 255 days in FY22. DIL doesn't have any inventory as the products are also customized as per client's requirement and it directly stores in the plant of the client. As it crosses through three stages (Mechanical completion, Commissioning and Performance

guarantee check) and on completion of each stage they get payment for that particular stage this is how their receivables remains high. Further, the creditors of the company are at 61 days in FY22 as compared to 62 days in FY21. However, in the coming years the company will receive advances from customers of Rs.40 Crore out of which company will repay its unsecured loans and balance amount will be utilised to repay the creditors. However, in the coming years the company has shown less trade payables in succeeding years.

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 liquidity profile of the company is stretched. As the company is having net cash accruals of Rs.5.57 Crore in FY22 against no repayment debt obligations in the same period. The fund based average bank limit utilisation of the company is at 99% and non-fund based average bank limit utilisation is at 15% in FY22. In addition to this, the current ratio of the company is at 2.23 times in FY22 against 2.02 times in FY21.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	384.36	341.95
PAT	Rs. Cr.	4.43	0.42
PAT Margin	(%)	1.15	0.12
Total Debt/Tangible Net Worth	Times	0.55	0.45
PBDIT/Interest	Times	1.78	1.06

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

None

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Oct 2021	Cash Credit	Long Term	57.00	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	55.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A4+ Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	57.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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