

Press Release

Rakon India Private Limited

January 04, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	10.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.15.00 crore bank facilities of Rakon India Private Limited (RIPL). The outlook is '**Stable**'.

Rationale for rating

The rating on RIPL takes into account the established track record of the company and experienced management in the frequency control products (FCP) industry, RIPL's healthy financial risk profile and strong liquidity. However, rating is constrained by decline in profitability margins, working capital intensive nature of operations and risks related to revenue concentration. In the near term company is executing debt funded capex through which company is building its own production facility and increasing capacity. This is expected to have positive effect in terms of improvement in revenues, profitability and working capital management. Hence going forward these factors will remain key rating sensitivities.

About the Company

Based in Karnataka, Rakon India Private Limited was incorporated in 2007. The company is engaged in the manufacturing of frequency control products such as OCXO, TCXO, VCXO and other crystal oscillators. It is managed and directed by Mr. Brent John Robinson, Mr. Arun Mukund Parasnis and Mr. Palakkal Mavilavalappil Unnikrishnan.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of RIPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

Rakon India Private Limited was incorporated in 2007. Thus, the group has operational track record of over a decade in the frequency control equipment industry. The directors; Mr. Brent John Robinson, Mr. Arun Mukund Parasnis and Mr. Palakkal Mavilavalappil Unnikrishnan have an experience of over two decades in the aforementioned industry. The long track record of operations and experience of management has helped the company develop healthy relationship with its customers and suppliers. Acuité believes that the company will sustain its existing business profile on the back of established track record of operations and experienced management.

Healthy Financial Risk Profile

Company's financial risk profile is healthy marked by healthy net worth and strong debt coverage indicators. Tangible Net Worth as on 31st March 2022 stood at Rs. 90.13 Cr as against Rs. 83.58 Cr in FY 2021. Total debt of Rs. 0.75 Cr consists of lease liability that the company is paying for using leased rental facility as offices and manufacturing unit. Consequently, gearing has remained strong at 0.01 times in FY 2022. Interest coverage ratio is healthy at 52.61 times in FY 2022 as against 26.06 times in FY 2021. NCA/TD has improved to 17.14 times in FY 2022 from 10.09 times in FY 2021 due to decline in lease liability. TOL/TNW and Debt/EBITDA remained below unity at 0.69 times and 0.05 times respectively in FY 2022. Going forward company will be on boarding interest bearable unsecured debt to fund its capex plan however financial risk profile is expected to remain stable despite on boarding of debt in the near term.

Weaknesses

Intensive working capital operations

Company's operations are working capital intensive as evident by GCA days of 345 in FY 2022. High GCA days in FY 2022 is result of high inventory holding period. Inventory holding period has increased from 149 days in FY 2021 to 309 days in FY 2022. Since there was shortage of microchips hence the company had to keep stock of additional raw materials and buffer finished goods stock to fulfil the demand in the market. Debtor days have remained comfortable at 36 days in FY 2022 as against 27 days in FY 2021 since majority of the sales happens to Rakon Limited hence timely receivables are realized by the company. Creditors days have stretched wherein they have increased from 68 days in FY 2021 to 212 days in FY 2022. As a result, bank limit utilization has remained moderate at 55.70% in the last 6 months between April to September 2022.

Exposure to risks related to technology changes and risk related to revenues concentration

RIPL is exposed to technology changes, as any change in technology by the end-user will require a realignment of RIPL's products, with the end user's technology. Any delays in such readjustments could adversely impact the competitive position. RIPL is significantly exposed to risks related to revenue concentration from telecom industry.

Rating Sensitivities

- Working capital management
- Profitability
- Scale of operations

Material covenants

None.

Liquidity Position Adequate

Company has adequate liquidity position. Since the company does not have any term debt, net cash accruals are being used to pay off lease liability, support working capital and for maintenance/replacement capex. In FY 2022 company generated net cash accrual of Rs. 12.84 Cr against nil maturing debt obligations. Bank limit utilization has remained moderate at 55.70% in the last 6 months between April to September 2022. Company has unencumbered

cash and bank balance of Rs. 5.79 Cr in FY 2022.

Outlook: Stable

RIPL will continue to benefit from the extensive experience of its promoters and their technical expertise in the FCP industry. The outlook may be revised to 'Positive' if the company reports substantial growth in revenue, and maintains a stable operating margin and working capital cycle. The outlook may be revised to 'Negative' in case of a significant decline in volume or realizations, or any major debt-funded capital expenditure, weakens the financial risk profile.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	125.62	154.43
PAT	Rs. Cr.	6.17	15.90
PAT Margin	(%)	4.91	10.30
Total Debt/Tangible Net Worth	Times	0.01	0.03
PBDIT/Interest	Times	52.61	26.06

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

None

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>
- 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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB Stable Assigned

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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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