

Technorings

March 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	5.85	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	5.85 (Rs. Five Crore and Eighty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Technorings takes into account of decline in scale of operations and decrease in profitability margins during FY20 (Audited) (refers to period April 01 to March 31). Further, the ratings continue to derive strength from the experienced promoters and well established relationship with reputed clientele. Comfortable capital structure and debt coverage indicators albeit declined, Highly fragmented and competitive nature of industry. However the rating continues to be tempered risk Constitution of the entity as partnership firm with inherent risk of withdrawal of capital

Rating Sensitivities

Positive Factors (Factors that could lead to positive rating action/upgrade)

- PBILDT margins and PAT margins beyond 14% and 6% on sustained basis

Negative Factors (Factors that could lead to negative rating action/downgrade)

- Decrease in total operating income below Rs. 60.00 Crore.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with decrease in total operating income and profitability margins

The scale of operations of the firm marked by the total operating income has declined significantly by 48.77% and stood at Rs. 61.02 crore in FY20 due to reduction in the orders at the back of overall slowdown in the automobile industry during FY20 and also loss of sales during last week of March 2020. However, the firm has registered total operating income of Rs. 47.41 cr during 10MFY21 (Prov.).

The profitability margins marked by PBILDT margin declined by 305 bps and stood at 11.82% in FY20 as compared to 14.87% in FY19 due to increase in cost of materials and valuation of closing stock at scrap value which was expected to be obsolete in BS-6 regime. Further, the PAT margin also declined by 408 bps and stood low at 2.51% in FY20 as compared to 6.59% in FY19 on back of decrease in PBILDT in absolute terms

Highly fragmented and competitive nature of industry

Technorings operates in a highly competitive industry wherein there is presence of a large number of players in the unorganized and organized sectors. Furthermore, the auto component industry is largely unorganized in structure, consisting of around 45-50% of the overall industry size. The unorganized segment mainly caters to the replacement market and to tier II and III suppliers. The organized segment majorly caters to the OEM segment.

Elongated operating cycle

The operating cycle of the firm stood elongated at 125 days in FY20 as compared to 50 days in FY19. The firm offers a credit period of around 30 to 90 days to its customers as majority of them are large size players which possess high bargaining power. The average collection period of the firm stood at 166 days for FY20 as compared to 107 days in FY19. The firm receives a credit period of 30 to 60 days and maintains inventory period up to 30 days for smooth production process. The average utilization of its working capital limits stood at ~60% for 12-month period ended January 31, 2021.

Constitution of the entity as partnership firm with inherent risk of withdrawal of capital

Technorings constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/ retirement and insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders. Further, the partners have withdrew the capital to tune of Rs. 6.39 crore during FY20.

Key Rating Strengths

Experience of promoters

Partners of the firm have vast experience in the auto component industry through their association with Techno Rings and its sister concerns like Bhoopalam Marketing Services and Bhoopalam R Nanjunadyya & Co. Mr.B.N.Satyanarayana with an experience of more than five decades. The promoter group is also resourceful and has been infusing funds in the form of unsecured loans to support company's growing operations. Further, the top management of the firm is supported by a team of experienced professionals in managing the day-to-day operations.

Comfortable capital structure and debt coverage indicators albeit declined

The capital structure marked by overall gearing ratio has deteriorated marginally from 0.26x as on March 31, 2019 to 0.31x as on March 31, 2020. The debt profile of the company constitutes of working capital borrowings of Rs. 3.21 crore, unsecured loan of Rs. 4.91 crore and vehicle loan of Rs. 0.62 crore as on March 31, 2020

The interest coverage ratio of the firm deteriorated to 3.87x in FY20 as against 7.38x in FY19 due to decrease in PBILDIT in absolute terms. The total debt to GCA also deteriorated to 1.83 in FY20 from 0.73x in FY19 on account of decrease in cash accruals during the year

Well established relationship with reputed clientele

By virtue of long presence, TR has successfully established relationships with reputed companies in automobile industry such as Ashok Leyland Limited, Tata Motors Limited, Amalgamation Repco Limited, Automotive Axles Limited, APA Engineering Limited etc. which helps the firm to get repeated open orders. Customer concentration risk is mitigated due to long established relationship with Ashok Leyland Limited.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals with low repayment obligations, modest cash and cash equivalents of Rs. 2.39 crore as on January 31, 2021. Its working capital limits are utilized to the extent of 60% during last 12 months ending January 31, 2020 and supported by above unity current ratio of 1.37x as on March 31, 2020. Further, the firm has not availed moratorium.

Analytical approach: Standalone

Applicable criteria:

[CARE's Policy on Default Recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology-Manufacturing Companies](#)

About the Firm

Karnataka based, Technorings was established on June 20, 1992 as a partnership firm and is currently being managed by Mr. B. N. Satyanarayana, Mr. B. N. Viswendra, Mr. B. S. Shashidhara, Mr. B. S. Bharath and Mr. B. S. Sharath. The firm is engaged in manufacturing of clutch plates, brackets, ADI components, IND hardening components; at its manufacturing facility located in Karnataka with installed capacity of Castings- 2000 tons/month and also Machining- 2,50,000 units per/month. The firm supplies its products to companies who are engaged in commercial vehicle segment.

Brief Financials (Rs. crore)	FY19	FY20
	A	A
Total operating income	119.10	61.02
PBILDIT	17.71	7.21
PAT	7.85	1.53
Overall gearing (times)	0.26	0.31
Interest coverage (times)	7.38	3.87

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	1.85	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB+; Stable	1)CARE BB+; Stable (22-May-20)	1)CARE BBB-; Stable (30-Mar-20)	1)CARE BBB-; Stable (15-Feb-19)	1)CARE BBB-; Stable / CARE A3 (17-Nov-17)
2.	Fund-based - LT-Bank Overdraft	LT	1.85	CARE BB+; Stable	1)CARE BB+; Stable (22-May-20)	1)CARE BBB-; Stable (30-Mar-20)	1)CARE BBB-; Stable (15-Feb-19)	1)CARE A3 (17-Nov-17)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NIL

	Detailed explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Mr. Prajwal MR

Group Head Contact no.- 080-46625547

Group Head Email ID- prajwal.mr@careratings.com

Business Development Contact

Name: Mr. Nitin Kumar Dalmia

Contact no. : 080- 4662 5526

Email ID : nitin.dalmia@careratings.com

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