

Rating Rationale

March 31, 2020 | Mumbai

Technocraft Industries India Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.976 Crore (Enhanced from Rs.906 Crore)
Long Term Rating	CRISIL A+/Positive (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its rating on the bank loan facilities of Technocraft Industries India Limited (Technocraft) at 'CRISIL A+/Positive/CRISIL A1+'.

The ratings continue to reflect Technocraft's strong financial risk profile, driven by healthy capital structure, ample liquidity, and strong debt protection metrics. The ratings also factors in diverse product profile, established market position in the drum closure industry and increasing market share in the scaffolding industry. These strengths are partially offset by weaker operating performance of the yarn & fabric division.

During nine month ended fiscal 2020, revenue grew by 5% as compared to corresponding period of previous fiscal year due to muted growth from scaffolding division. Operating margin declined by 40 basis points due to continued subdued performance of the textile division.

The company has significantly curtailed its capital expenditure (capex) plan for the textile division to Rs 125 crore from the Rs 200 crore earlier, resulting in lower term debt availed than originally tied for the capex. As on October 2019, the company has started melange yarn production from existing factory at Murbad and trial production of cotton yarn from new unit at Amravati. However, ramp-up in utilisation and profitability of the yarn & fabric division post the recent capex will be a key monitorable. Total term debt outstanding currently is Rs 150-160 crore, which primarily pertains to the textile division.

Liquidity remained ample with cash and cash equivalents (including investments in mutual fund) of around Rs 300 crore as on December 31, 2019 (compared to Rs 342 crore as of March 2019). Working capital intensity remains high, with increased inventory and debtor level during the period.

Analytical Approach

For arriving at the ratings, CRISIL has consolidated the business and financial risk profiles of Technocraft, its domestic & foreign subsidiaries, step-down subsidiaries, Limited Liability Partnership and joint ventures because of strong financial and operational linkages between these entities.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* **Established market position in the international drum closure industry and increasing market share in the scaffolding industry:** Technocraft is one of the leading manufacturers of drum closures with a worldwide market share of around 35%, excluding China, and caters to major drum manufacturers. It is reputed globally for the quality and wide range of products. The company supplies drum closures to most leading drum and drum part manufacturers in the world including Con-tech International Inc, Berenfield Containers Inc, August Berger Metallwarent GmbH and Mauser Houston Metal. The ultimate end-user industries predominantly include oil and gas, packaging, chemicals, and food and beverages.

The scaffolding segment comprises scaffolding, formwork and tower business with around 73% of revenue accruing from the overseas markets. The company has also started manufacturing of sophisticated engineered formwork systems for building, construction and infrastructure projects. The company supplies its products to a diversified set of end markets including oil & gas, power, refineries, petrochemical, infrastructure and commercial construction.

* **Strong financial risk profile:** The financial risk profile has been strong, marked by healthy networth, and robust debt protection metrics. Over the years, networth has grown to Rs 804 crore as on March 31, 2019 from Rs 417 crore as on March 31, 2011, driven by steady accretion to reserves. Debt protection metrics remained stable with net cash accrual to total debt and interest coverage at 0.24 times and 6.4 times, respectively, in fiscal 2019. As on December 2019, cash accruals stood at Rs 141 crore compared to Rs 125 crore in the corresponding period of the previous year, supported by lower tax outgo as the company has opted for new tax regime, while interest coverage though reduced to 7.0 times from 7.9 times, continue to remain healthy.

Weaknesses

* **Weaker yarn & fabric division:** The yarn and fabric industry in India is highly competitive and dependent on exports to neighboring countries, such as China and Bangladesh. With low value added products in the portfolio, the company is susceptible to the volatility in demand and spreads affecting the profitability. With completion of the upgradation cum capacity expansion of textile division the performance of division would remain key monitorable.

* **Exposure to volatility in raw material prices and foreign exchange (forex) rates:** Key raw materials, steel and cotton account for over 70% of consumption. Consequently, profitability is exposed to risks relating to fluctuations in steel, and cotton and yarn prices. While the drum closure business is more resilient, owing to the value added nature of the product, and strong cost and technology competitiveness, the scaffoldings and yarn businesses, which use steel and cotton, respectively, as key raw materials are likely to be impacted more, owing to volatility in these commodities.

Liquidity Strong

Technocraft enjoys healthy liquidity, driven by expected cash accrual of Rs 180-200 crore in fiscal 2020 and 2021 and cash & cash equivalents (including investments) of around Rs 300 crore as on December 31, 2019. Term debt obligation are of only around Rs 3.5 crore in next six months i.e. till September 2020, however, the same is expected to increase afterwards due to expiry of moratorium for term debt availed for textile division. Average fund based utilisation remain moderate at 72% for the nine month ended through December 2019. Cash accrual, cash & cash equivalents and unutilised bank lines should meet repayment obligations as well as incremental working capital requirement in the near term.

Outlook: Positive

CRISIL believes Technocraft will continue to benefit from its strong overall financial risk profile, established market position in the drum closure segment and growing scaffolding division.

Rating Sensitivity Factors

Upward factors

*Improved demand across business segments, especially the textile division leading to operating margin sustaining above 17% and adequate cash accruals.

*Healthy financial risk profile, with net debt position (gross debt less cash and cash equivalent) below Rs 200 crore.

Downward factors

*Slowdown in demand across business segment resulting in operating margin dropping to below 14% on a sustainable basis

*Additional debt funded capex in the near term.

*Liquidity position weakens on account of sizable stretch in the working capital cycle or significant outflow due to buyback/ dividend, leading to net debt of more than Rs 400 crore.

About the Company

Technocraft was set up as a partnership firm in 1972 and was reconstituted as a private limited company in 1991. It has three major manufacturing divisions: drum closures, scaffoldings, and garments and cotton yarn. It is the leading drum closure manufacturer in the international market, with a sizeable market share and annual capacity of 55 million sets of drum closure in India and 15 million sets of drum closure in China. It has capacity of 40,000 metric tonne (MT) and 25,000 MT in India and China, respectively, for scaffoldings, and around 90000 spindles in its yarn division. Technocraft has several marketing subsidiaries in the US, Europe, and Australia. The company has a 15-megawatt power plant, used primarily for captive consumption.

Key Financial Indicators

Particulars	Unit	2019	2018
Operating Income	Rs. Cr.	1,313	1,184
Profit After Tax	Rs. Cr.	119	119
PAT Margin	%	9.1	10.1
Adjusted Debt/Adjusted Networkth	Times	0.80	0.75
Interest coverage	Times	6.4	8.5

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of the Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Sep-20	25.24	CRISIL A+/Positive
NA	Term Loan	NA	NA	Sep-24	59.80	CRISIL A+/Positive
NA	Term Loan	NA	NA	Mar-25	38.50	CRISIL A+/Positive
NA	Term Loan	NA	NA	Dec- 23	20.00	CRISIL A+/Positive
NA	Term Loan	NA	NA	Oct - 25	145.00	CRISIL A+/Positive
NA	Working Capital Facility@	NA	NA	NA	40.00	CRISIL A+/Positive
NA	Working Capital Facility*	NA	NA	NA	41.00	CRISIL A+/Positive
NA	Working Capital Facility	NA	NA	NA	100.00	CRISIL A+/Positive
NA	Working Capital Facility	NA	NA	NA	40.00	CRISIL A+/Positive
NA	Working Capital Facility#	NA	NA	NA	80.00	CRISIL A+/Positive
NA	Working Capital Facility	NA	NA	NA	73.00	CRISIL A+/Positive
NA	Working Capital Facility	NA	NA	NA	40.00	CRISIL A+/Positive
NA	Post Shipment Credit\$	NA	NA	NA	45.00	CRISIL A+/Positive
NA	Bank Guarantee	NA	NA	NA	50.53	CRISIL A1+
NA	Foreign Exchange Forward	NA	NA	NA	1.25	CRISIL A1+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	10.00	CRISIL A1+
NA	Overdraft	NA	NA	NA	25.00	CRISIL A1+
NA	Packing Credit in Foreign Currency	NA	NA	NA	22.00	CRISIL A1+
NA	Packing Credit %	NA	NA	NA	55.00	CRISIL A1+
NA	Post Shipment Credit	NA	NA	NA	55.00	CRISIL A1+
NA	Proposed Long Term Bank Loan facility	NA	NA	NA	9.68	CRISIL A+/Positive

\$Fully Interchangeable with Working Capital Demand Loan, Pre shipment/Post Shipment finance, Letter of credit, Cash Credit.

*Fully Interchangeable with Working Capital Demand Loan, Pre shipment/Post Shipment finance, Letter of credit, Buyers Credit, Overdraft and Cash Credit

@Fully Interchangeable with Pre shipment/Post Shipment finance, Letter of credit, Bank Guarantee (Financial/Performance), Cash

Credit

#Fully Interchangeable with Working Capital Demand Loan, Pre shipment/Post Shipment finance, Letter of credit, Buyers Credit, Cash Credit

%Fully Interchangeable with Export Packing Credit, Pre shipment/Post Shipment finance, Foreign Bill Purchase /Discounting /Negotiation; Interchangeable with Letter of credit to the extent of Rs. 20 crores; Interchangeable with Bank Guarantee (Financial/Performance) to the extent of Rs. 15 crores.

Annexure - List of entities consolidated

Entity Consolidated	Extent of Consolidation	Rationale for consolidation
Technosoft Engineering Projects Limited ('TEPL'?)	Full consolidation	All these companies collectively have significant managerial, operational, and financial linkages
Technocraft Tabla Formwork Systems Private Limited	Full consolidation	
Techno Defence Private Limited	Full consolidation	
Shreyan Infra & Power LLP. (Sold w.e.f 26 th November 2019)	Full consolidation	
Benten Technologies LLP	Full Consolidation	
Shivale Infraproducts Private Limited	Full Consolidation	
Technocraft International Limited, UK (WOS of the Company) ('TIL-UK'?)	Full consolidation	
Technocraft Trading Spolka Zoo, Poland (WOS of the Company)	Full consolidation	
Technocraft Australia Pty Ltd., Australia) (WOS of the Company)	Full consolidation	
Anhui Reliable Steel Technology Co Ltd, China (WOS of the Company)	Full consolidation	
Technocraft NZ Ltd., New Zealand (WOS of the Company)	Full consolidation	
Technosoft Engineering, Inc, USA (WOS of TEPL) ('TEI-USA'?)	Full consolidation	
Highmark International Trading FZE, UAE (WOS of TIL-UK) ('HITF-UAE'?)	Full consolidation	
Swift Projects Inc., USA (WOS of 2045690 Alberta Ltd, CANADA [Step Engineering])	Full consolidation	
AAIT / Technocraft Scaffold Distribution LLC, USA (Subsidiary of TIL-UK)	Full consolidation	
Technosoft Engineering UK Ltd (WOS of TEPL)	Full consolidation	
2045690 Alberta Ltd, CANADA [Step Engineering] (Subsidiary of TEI-USA)	Full consolidation	
Technosoft Services, INC.,USA (WOS of TEI-USA)	Full consolidation	
Technosoft GMBH, Germany, (Subsidiary of TEPL)	Full consolidation	
Technosoft Innovations INC, USA (WOS of TEI-USA)	Full consolidation	

Annexure - Rating History for last 3 Years

Instrument	Current		2020 (History)		2019		2018		2017		Start of 2017				
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating			
Fund-based Bank Facilities	LT/ST	915.47	CRISIL A+/Positive/ CRISIL A1+			12-06-19	CRISIL A+/Positive/ CRISIL A1+	26-12-18	CRISIL A+/Positive/ CRISIL A1+	20-11-17	CRISIL A+/Positive/ CRISIL A1+	CRISIL A+/Positive/ CRISIL A1+			
										15-09-17	CRISIL A+/Positive/ CRISIL A1+				
												23-08-17	CRISIL A+/Positive/ CRISIL A1+		
													28-07-17	CRISIL A+/Positive/ CRISIL A1+	
Non Fund-based Bank Facilities	LT/ST	60.53	CRISIL A1+			12-06-19	CRISIL A1+	26-12-18	CRISIL A1+	20-11-17	CRISIL A1+	--			
												15-09-17	CRISIL A1+		
													23-08-17	CRISIL A1+	
													28-07-17	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	50.53	CRISIL A1+	Bank Guarantee	50.53	CRISIL A1+
Foreign Exchange Forward	1.25	CRISIL A1+	Foreign Exchange Forward	1.25	CRISIL A1+
Letter of credit & Bank Guarantee	10	CRISIL A1+	Letter of credit & Bank Guarantee	10	CRISIL A1+
Overdraft	25	CRISIL A1+	Overdraft	25	CRISIL A1+
Packing Credit in Foreign Currency	22	CRISIL A1+	Packing Credit in Foreign Currency%	55	CRISIL A1+
Proposed Long Term Bank Loan Facility	9.68	CRISIL A+/Positive	Term Loan	143.54	CRISIL A+/Positive
Post Shipment Credit\$	45	CRISIL A+/Positive	Post Shipment Credit\$	45	CRISIL A+/Positive
Post Shipment Credit	55	CRISIL A1+	Post Shipment Credit	55	CRISIL A1+
Term Loan	143.54	CRISIL A+/Positive	Working Capital Facility	253	CRISIL A+/Positive
Term Loan	145	CRISIL A+/Positive	Working Capital Facility@	40	CRISIL A+/Positive
Working Capital Facility@	40	CRISIL A+/Positive	Working Capital Facility*	41	CRISIL A+/Positive
Working Capital Facility*	41	CRISIL A+/Positive	Working Capital Facility#	80	CRISIL A+/Positive
Working Capital Facility#	80	CRISIL A+/Positive	Term Loan	84.68	CRISIL A+/Positive
Working Capital Facility	253	CRISIL A+/Positive	Packing Credit in Foreign Currency	22	CRISIL A1+
Packing Credit%	55	CRISIL A1+			
Total	976	--	Total	906	--

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##Fully interchangeable with Capex Letter of Credit

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

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