

March 28, 2017

Teknomec (Revised)

Instrument*	Rated Amount (in crore)	Rating Action
Long term: Term Loan	3.50	[ICRA]BB-(stable) assigned
Long term: Unallocated facilities	6.50	[ICRA]BB-(stable) assigned
Total	10.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 3.50 crore[^] term loan facilities and the Rs 6.50 crore unallocated facilities of Teknomec (the firm). The outlook on the rating is Stable.

Rationale

The assigned rating takes into account the firm's status as an authorized marketer for established track record for globally reputed Taiwanese CNC Original Equipment Manufacturers (OEMs) such as Dah Lih machinery industry co. Ltd, Zitai Precision Machinery Co., Trident Machinery Co., Ltd. etc. The rating also considers Teknomecs' growing customer base supported by stable sales growth; and the long track record of the promoters and the group in the CNC equipment industry. Further, the rating also considers the firm's healthy operating margins and strong financial profile characterised by moderate gearing and adequate debt coverage indicators.

However, the comfort drawn from these factors is moderated by the relatively small scale of operations and the limited value additive nature of the business. The rating also considers the susceptibility of Teknomecs' volume growth on new customer additions given the relatively longer replacement cycle of its products; however the firm receives healthy repeat orders from its customers resulting in consistent revenues. The rating also takes into account the inherent cyclicity in the end-user industry and the risks of capital continuity inherent to a partnership firm.

Key rating drivers

Credit Strengths

- Track record of promoters in the business of CNC machines
- Financial profile characterized by healthy operating margins, return indicators
- Healthy capital structure with moderate gearing and adequate debt coverage indicators

Credit Weakness

- Relatively small scale of operations and limited value additive nature of the business
- Volume growth susceptible to the number of new customers the company adds every year due to longer replacement cycle; however, the firm receives healthy repeat orders from its customers every year resulting in consistent revenues
- Exposed to inherent cyclicity in end-user industries
- Risk associated with entity being a partnership firm

[^] 100 lakh = 1 crore = 10 million

Description of key rating drivers highlighted above:

The assigned ratings positively factor in the strong technical expertise and track record of the promoters in the CNC machine industry which has led to robust revenue growth over the past two fiscals. Since operation, the company had authorized marketing arrangements with major Taiwanese OEM's like Dah Lih machinery industry co. Ltd, Zitai Precision Machinery Co., Trident Machinery Co., Ltd which has supported the revenue growth to a large extent. Further the company registers healthy operating margins with the consistent commission percentage Teknomec is able to generate from its customers and moderate employee and selling expenses.

Teknomec's capital structure was comfortable as of March 31, 2016 characterised by healthy gearing and debt protection metrics. The debt profile of the firm was low comprising majorly of term loans of Rs. 3.49 crore and unsecured loans from micro finance organisations of Rs. 1.79. This, amid healthy accretion to reserves in FY2016 has resulted in a comfortable capital structure with a gearing of 1.04 times as on March 2016.

Teknomec reported a PAT of Rs. 0.52 crore on operating income of Rs. 5.47 crore, for the year ended FY2016.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company:

Teknomec was incorporated in the year 1993 as a partnership firm by two qualified engineers, Mr. K. Venkateswaran and Mr.R.E Chandrasekar to operate exclusively in the industrial machines market and provide comprehensive solutions. Teknomec was set-up as a marketing firm involved in the marketing and sales of the Taiwanese CNC machines. Later, Teknomec expanded and set-up a servicing unit for the CNC machines. The firm has its corporate office at Ambattur, Chennai to support its trading operations. The firm primarily operates as a marketer of industrial machines such as Vertical, horizontal & 5-axis CNC machine centers, cold chamber & hot chamber die casting machines, CNC turning center, CNC high speed tapping center and die casting vacuum machines. Teknomec has exclusive arrangements since 1993 for marketing and servicing of CNC machine tools and CNC die casting machines by representing major four companies from Taiwan.

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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 2 years	
		Type	Rated amount (Rs. crore)	Month-year & Rating FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				March 2017		
1	Term loan	Long Term	3.50	[ICRA]BB-(stable)	-	-
2	Unallocated facilities	Long Term	6.50	[ICRA]BB-(stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan	FY2014	-	FY2018	3.50	[ICRA]BB-(stable)
Unallocated facilities	-	-	-	6.50	[ICRA]BB-(stable)

Name and Contact Details of the Rating Analyst(s):

R Srinivasan
+91 4596 4315
srinivasan.r@icraindia.com

Krithi Gugan K
+91 0444596345
krithi.gugan@icraindia.com

Ankita Sheth
+91-80-49225513
ankita.sheth@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-
79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: +91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500