

## Rating Rationale

December 08, 2023 | Mumbai

### Technocraft Industries India Limited

*Long-term rating upgraded to 'CRISIL AA-/Stable'; short-term rating reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.976 Crore
Long Term Rating	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')
Short Term Rating	CRISIL A1+ (Reaffirmed)

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*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of Technocraft Industries India Ltd (TIIL) to '**CRISIL AA-/Stable**' from '**CRISIL A+/Positive**' and reaffirmed its '**CRISIL A1+**' rating on the short-term bank facility of the company.

The rating upgrade reflects the expectation of sustained improvement in the business risk profile of TIIL, supported by diversification across the drum closure, scaffolding and textile segments, strengthened product portfolio through increasing contribution of value-added products in the scaffolding and formworks segment, and healthy growth across business segments leading to better operating efficiency. While the company has significant exposure to the global market, which has been facing a slowdown since last year, strong market position and technical expertise in the drum closure and scaffolding segment have helped sustain its operating performance. Growth outlook remains comfortable as economic operations revive globally. Furthermore, the financial risk profile remains healthy benefited by healthy cash accrual, negligible cash commitments and prudent cash flow management.

In fiscal 2023, revenue remained flat at Rs 1,985 crore, following high growth of 47% in in the previous fiscal. Performance remained comfortable in the first half of fiscal 024, in line with expectations. In the drum closure segment, sales volume had declined steeply in fiscal 2023 as an aftermath of the global slowdown. Geographically, ~30% of sales are in the US and Europe each, while the balance is in Asian markets. Volume is expected to grow 8-10% on-year in fiscal 2024. The scaffolding segment has seen strong business growth over the past two fiscals, post the downturn during the pandemic. While some slowdown is expected this fiscal, growth should remain strong over the medium term. Steeper growth will accrue in fiscal 2026 with commissioning of the enhanced capacity in the aluminum formwork segment. The performance of the textile division remains weak amidst subdued demand, mainly in overseas markets. While performance here is expected to improve gradually, supported by cost optimisation measures, its value contribution to overall operations may remain small. Overall, a 10-12% growth in revenue is expected in fiscal 2024 and 10-15% in the next, driven by rising sales volume.

TIIL has strong operating efficiency as reflected in operating margin of 21.1% in fiscal 2023 and 21.5% in the first half of fiscal 2024. For the full fiscal, the margin may moderate marginally due to the slowdown in overseas markets. Over the medium term, the margin is expected to remain stable at 18-20% with the introduction of new, lower value products to cater to the domestic scaffolding and formwork market.

Financial risk profile remains comfortable, supported by healthy capital structure reflected in networth of Rs 1,434 crore and net debt of Rs 115 crore as on March 31, 2023. Despite debt-funded capital expenditure (capex) plan, cash accrual is expected to improve by Rs 300-350 crore annually, strengthening the financial risk profile over the medium term. Any significant debt funded capex, increased working capital intensity or cash outflow through buyback/dividend will be key rating sensitivity factors.

The ratings continue to reflect the established market position of TIIL in the drum closure industry and ITS increasing market share in the scaffolding industry. The ratings also factor in its improved operating performance and healthy financial risk position. These strengths are partially offset by weaker operating performance of the yarn and fabric division and the company's susceptibility to volatility in raw material prices and fluctuations in foreign exchange (forex) rates.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of TIIL, its domestic and foreign subsidiaries, step-down subsidiaries, limited liability partnership and joint ventures because of strong financial and operational linkages among the 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:** TIIL is a leading manufacturer of drum closures with a worldwide market share of around 36%,

excluding China, and caters to major drum manufacturers. It is reputed globally for its quality and wide range of products and supplies to leading drum and drum part manufacturers in the world, including B-POL, Drum Parts Inc, Mauser Group worldwide, Schutz Group worldwide and August Berger Metallwarent GmbH. The major end-user industries are oil and gas, packaging, chemicals, and food and beverages.

The scaffolding segment comprises scaffolding and formwork business with 70-75% of revenue accruing from abroad. The company has started manufacturing sophisticated engineered formwork systems for building, construction and infrastructure projects. It supplies to diversified industries including oil and gas, power, refineries, petrochemical, infrastructure and commercial construction.

- **Improved operating performance:** Revenue was flat at Rs 1,985 crore in fiscal 2023, coming after high growth of 47% in the previous fiscal. Performance was comfortable in the first half of fiscal 2024, in line with expectations, and revenue is expected to rise 10-12% on-year in fiscal 2024 and 10-15% in fiscal 2025, driven by rising sales volume.

The drum closure segment saw a steep decline in sales volumes in fiscal 2023 because of the global slowdown. Volume will pick up gradually (as reflected in sales for the first half of fiscal 2024), and is seen growing 8-10% on-year in fiscal 2024.

The scaffolding segment saw strong growth in the past two fiscals, post the pandemic-led downturn. While some slowdown is expected in fiscal 2024, growth is expected to remain strong over the medium term with acceleration in fiscal 2026 as enhanced capacities in the aluminum formwork segment come on stream.

The performance of the textile division remains weak amidst subdued demand, mainly in the export market. While cost optimisation measures will help improve performance gradually, its value contribution to overall operations will remain negligible.

TILL enjoys strong operating efficiency as reflected in operating margin of 21.1% in fiscal 2023 and 21.5% in the first half of fiscal 2024. The margin for the full fiscal may moderate due to the global slowdown, but is expected stabilise at 18-20% over the medium term with the introduction of new, lower value products to cater to the domestic scaffolding and formwork markets.

- **Strong financial risk profile:** The financial risk profile is supported by healthy network and strong debt protection metrics. The network rose to Rs 1,434 crore as on March 31, 2023, from Rs 1,347 crore a year earlier, driven by steady accretion to reserve. Debt protection metrics remained stable with net cash accrual to total debt and interest coverage at 0.52 time and 20.7 times, respectively, for fiscal 2023. The capex plan of Rs 350 crore to expand capacity in the aluminum formworks segment may lead to additional long-term debt of ~Rs 280 crore in fiscals 2024 and 2025. Still, the debt protection metrics will remain comfortable with gearing below 0.5 time, interest coverage above 8 times and ratio of net debt to earnings before interest, tax, depreciation and amortisation (Ebitda) below 0.2 time over the medium term. However, more-than-expected debt addition for capex, acquisitions or working capital management, weakening the debt protection metrics, will remain monitorable.

#### **Weaknesses:**

- **Weak operating performance of the yarn and fabric division:** The yarn and fabric industry in India is highly competitive and dependent on exports to neighboring countries, such as China and Bangladesh. Given its portfolio of products with limited value addition, TILL is susceptible to volatility in demand and spreads affecting profitability. Following the completion of upgrade and capacity expansion, the performance of in the textile division is a key monitorable.
- **Susceptibility to volatility in raw material prices and fluctuations in forex rates:** Key raw materials, steel and cotton, account for over 70% of consumption. Consequently, profitability is susceptible to fluctuations in steel, and cotton and yarn prices. While the drum closure business is more resilient, owing to value-addition, 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 by the volatility in the commodity prices.

#### **Liquidity: Strong**

TILL enjoys healthy liquidity, as reflected in cash accrual of Rs 300 crore in fiscal 2023 and cash and equivalent (including investments) of around Rs 489 crore as on September 30, 2023. Fund-based utilisation was moderate at 60%, on average, for the six months through September 2023. Annual cash accrual, cash and cash equivalent, and unutilised bank lines should suffice to meet debt obligation and incremental working capital requirement in the near term.

#### **Outlook: Stable**

TILL will benefit from sustained revenue growth and operating efficiency in the drum closure and scaffolding divisions. Its financial risk profile is expected to remain strong, driven by steady revenue growth, healthy debt protection metrics and cash accrual over the medium term.

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Sustained strengthening of business risk profile with double-digit revenue growth and maintenance of operating margin at 23-25%.
- Improved market position and diversification in the scaffolding business with stable operating margin.

##### **Downward factors:**

- Sustained weakening in operating performance due to slowdown in sales volume or decline in operating margin to below 15%.

- Larger-than-expected, debt funded capex, stretched working capital cycle or significant outflow on account of buyback/dividend, weakening the financial risk profile.

### About the Company

TIIL 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 closures in India and 20 million sets in China. It has capacity of 40,000 tonne of scaffoldings and around 60,382 spindles in its yarn division in India. The company has several marketing subsidiaries in the US, Europe, and Australia.

In the first half of fiscal 2024, TIIL generated income of Rs 1,107 crore (Rs 1,031 crore in the corresponding period of fiscal 2023) and profit after tax (PAT) of Rs 161 crore (Rs 141 crore).

### Key Financial Indicators

Particulars	Unit	2023	2022
Operating income	Rs.Crore	1985	1911
Profit After Tax (PAT)	Rs.Crore	276	274
PAT Margin	%	13.9	14.1
Adjusted debt/adjusted networkth	Times	0.46	0.38
Interest coverage	Times	15.77	19.33

**Any other information:** Not Applicable

### Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

### Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Term loan	NA	NA	31-Dec-23	2	NA	CRISIL AA-/Stable
NA	Term loan	NA	NA	1-Oct-25	25.83	NA	CRISIL AA-/Stable
NA	Term loan	NA	NA	1-Aug-25	1	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	75.00	NA	CRISIL AA-/Stable
NA	Non-Fund Based Limit	NA	NA	NA	77.02	NA	CRISIL A1+
NA	Fund-Based Facilities&	NA	NA	NA	225	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities^	NA	NA	NA	80	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities%	NA	NA	NA	41	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities\$	NA	NA	NA	40	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities#	NA	NA	NA	100	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities@	NA	NA	NA	100	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities!	NA	NA	NA	45	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities~	NA	NA	NA	40	NA	CRISIL AA-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	124.15	NA	CRISIL AA-/Stable

&Fungible with Fund base and Non-Fund base upto Rs. 200 Cr., Overdraft Rs. 25 Cr.

^Fungible with Fund base and Non-Fund base upto Rs. 80 Cr.

%Fungible with Fund base and Non-Fund base upto Rs. 41 Cr.

\$Fund base upto Rs. 20 Cr. and Non-Fund base upto Rs. 20 Cr.

#Total Sanction limit of Rs. 100 Cr. Fungible with Fund base upto Rs. 50 Cr.

@Fund base upto Rs. 62 Cr. and Non-Fund base upto Rs. 38 Cr.

!Fungible with Fund base and Non-Fund base upto Rs. 45 Cr.

~Fungible with Fund base and Non-Fund base upto Rs. 40 Cr.

### Annexure - List of Entities Consolidated

Entity consolidated	Extent of consolidation	Rationale
Technosoft Engineering Projects Ltd	Full	
Techno Defence Pvt Ltd	Full	
Technocraft Fashions Ltd	Full	
Shivale Infra Products Pvt Ltd	Full	
Technocraft Textiles Ltd	Full	
Technocraft Formwork Pvt Ltd	Full	
Technocraft Speciality Yarns Ltd	Full	

Technocraft Trading Spolka Z.O.O	Full	Operational and financial linkages
Technocraft International Ltd	Full	
Technocraft NZ Ltd	Full	
Anhui Reliable Steel Technology Co Ltd	Full	
Highmark International Trading FZE	Full	
AAIT/Technocraft Scaffold Distribution LLC	Full	
Technosoft Engineering Increase	Full	
Technosoft GMBH	Full	
Technosoft Services Increase	Full	
Technosoft Enigneering UK Ltd	Full	
Technosoft Innovations Inc	Full	
Technocraft Tabla Formworks Systems (P) Ltd	Full	
Benten Technologies LLP	Equity Method	Associate

### Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	898.98	CRISIL AA-/Stable		--	13-09-22	CRISIL A+/Positive	25-06-21	CRISIL A1+ / CRISIL A+/Stable	31-03-20	CRISIL A1+ / CRISIL A+/Positive	CRISIL A1+ / CRISIL A+/Positive
Non-Fund Based Facilities	ST	77.02	CRISIL A1+		--	13-09-22	CRISIL A1+	25-06-21	CRISIL A1+	31-03-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities <sup>&amp;</sup>	225	HDFC Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>^</sup>	80	Axis Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>%</sup>	41	DBS Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>\$</sup>	40	ICICI Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>#</sup>	100	IDFC FIRST Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>@</sup>	100	Kotak Mahindra Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities <sup>!</sup>	45	YES Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	2	IDBI Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	73	Citibank N. A.	CRISIL AA-/Stable
Fund-Based Facilities <sup>~</sup>	40	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA-/Stable
Non-Fund Based Limit	57.02	Citibank N. A.	CRISIL A1+
Non-Fund Based Limit	20	IDBI Bank Limited	CRISIL A1+
Proposed Long Term Bank Loan Facility	124.15	Not Applicable	CRISIL AA-/Stable
Term Loan	1	ICICI Bank Limited	CRISIL AA-/Stable
Term Loan	25.83	Kotak Mahindra Bank Limited	CRISIL AA-/Stable
Term Loan	2	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA-/Stable

<sup>&</sup>Fungible with Fund base and Non-Fund base upto Rs. 200 Cr., Overdraft Rs. 25 Cr.

<sup>^</sup>Fungible with Fund base and Non-Fund base upto Rs. 80 Cr.

<sup>%</sup>Fungible with Fund base and Non-Fund base upto Rs. 41 Cr.

<sup>\$</sup>Fund base upto Rs. 20 Cr. and Non-Fund base upto Rs. 20 Cr.

<sup>#</sup>Total Sanction limit of Rs. 100 Cr. Fungible with Fund base upto Rs. 50 Cr.

<sup>@</sup>Fund base upto Rs. 62 Cr. and Non-Fund base upto Rs. 38 Cr.

<sup>!</sup>Fungible with Fund base and Non-Fund base upto Rs. 45 Cr.

<sup>~</sup>Fungible with Fund base and Non-Fund base upto Rs. 40 Cr.

### Criteria Details

**Links to related criteria**[CRISILs Approach to Financial Ratios](#)[Rating criteria for manufacturing and service sector companies](#)[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[CRISILs Criteria for Consolidation](#)[CRISILs Criteria for rating short term debt](#)

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