

## Press Release

**United Cooling Systems  
Private Limited**

June 08, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 12.50 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B** (**read as ACUITE B**) and short term rating of '**ACUITE A4** (**read as ACUITE A four**) on the Rs.12.50 crore bank facilities of United Cooling Systems Private Limited. The outlook is '**Stable**'.

Coimbatore based United Cooling Systems Private Limited (UCPL) is incorporated in the year 1994 by Mr. Krishnavelu. It is engaged in manufacturing of cooling towers and heat exchangers. Further, the company also provides after sale services to its clients. The company have customers in both Domestic and Overseas market. Indian Oil Corporation Limited (IOCL), ITC Limited, Ultratech Cement Limited (UCL) and GASOS to name few customers.

### Key Rating Drivers

#### Strengths

- **Experienced management and long track record of operations**

UCPL is manufacturing cooling towers and heat exchangers since 1994. The company is promoted by Mr. Krishnavelu, possess more than 3 decades of experience in the said line of business. Extensive experience of the promoters in the industry has helped the company to build healthy relationship with the clients include IOCL, UCL, ITC Limited, GASOS, Petrofac among others. UCPL has an unexecuted order book of about Rs.7.3 crores as of April 30, 2018 for execution and deliverables in FY2019 (refers to financial year, April 1st to March 31st). Acuite believes that the experience in the industry, longstanding relations with the clients are expected to benefit UCPL over the medium term.

- **Growth in revenues and profitability**

Revenues of the company grew at a compound annual growth rate (CAGR) of 37.24 percent from Rs.6.90 crore in FY2016 to Rs.13.00 crore in FY2018 (Provisional). Growth is on account of higher off take from its vintage clients. Further operating margins improved to 20.61 percent in FY2018 (provisional) from 12.98 percent in FY2015 on account of increase in pricing power and better absorption of overhead costs. Further, as on 31 March, 2018, the company has executable orders worth Rs.7.33 crore from Paul Corporation, GASOS, Ali & Sons, JSW Steel among others which gives adequate revenue visibility for FY2019. Acuite believes that, UCPL will benefit over the medium term on account of on account of healthy profitability level though modest order book.

#### Weaknesses

- **Working capital intensive operations**

Operations of the company are working capital intensive marked by high Gross Current Assets (GCA) of 422 days in FY2017. The same is on account of longer production and fabrication cycle, testing of the equipment to pass the precision levels among others which keeps the inventory days of about 6-8 months. Also, the same with respect to receivables – the equipment / material dispatch takes about 30-60 days being large in size, vessel movement in case of exports, erection and testing of the equipment at clients side; further, the clients pay about 80 per cent within three

months, and balance is released after a period of six months from the supply period. All this results in stretch of receivable period to about four-six months. On provisional basis, inventory and receivables days are about 267 and 187 for the year FY2018. High GCA has resulted in full utilisation of its bank lines for the past 12 months through March 31, 2018 leaving no scope for any exigency. Acuite believes that operations of UCPL continues to be working capital intensive.

#### • Weak financial risk profile

Financial risk profile of the company is weak in FY2017 on account high gearing (Debt/Equity) at 5.20 times on account of modest net worth of Rs.1.56 crore and high dependency on outside loans for working capital requirements. As on 31 March, 2017, long term debt constitutes Rs.2.72 crore and short term debt of Rs.5.40 crore. Total outside liabilities to total net worth stood high at 6.68 times in FY2017. Acuite believes that, though financial risk profile is expected to improve in FY2018 on account of equity infusion to the extent Rs.0.70 crore, but still the financial risk profile continues to be weak on account of longer working capital cycle, modest accretion to reserves on the back of modest revenue base.

#### **Analytical Approach**

Acuité has considered the standalone business and financial risk profiles of the UCPL to arrive at this rating.

#### **Outlook: Stable**

Acuite believes that UCPL will maintain a stable outlook in the medium term on account of its experienced management and moderate order book. The outlook may be revised to 'Positive' in case UCPL registers higher-than-expected growth in revenues, while improving its capital structure and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its liquidity on account of larger-than-expected working capital cycle, or significant dip in revenues and profitability.

#### **About the Rated Entity - Key Financials**

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	8.44	6.90	9.08
EBITDA	Rs. Cr.	1.58	1.09	1.18
PAT	Rs. Cr.	0.27	0.18	0.24
EBITDA Margin	(%)	18.75	15.79	12.98
PAT Margin	(%)	3.22	2.65	2.61
ROCE	(%)	16.73	15.24	30.55
Total Debt/Tangible Net Worth	Times	5.20	4.28	3.57
PBDIT/Interest	Times	1.65	1.78	2.45
Total Debt/PBDIT	Times	5.11	5.05	3.84
Gross Current Assets (Days)	Days	422	410	184

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

None

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

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

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Not Applicable

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE B / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.18	ACUITE B

#### Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 <a href="mailto:suman.chowdhury@acuite.in">suman.chowdhury@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 <a href="mailto:naveen.papisetty@acuiteratings.in">naveen.papisetty@acuiteratings.in</a>	

#### About Acuité Ratings & Research:

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