

Press Release
United Cooling Systems
Private Limited

June 08, 2018



Rating Assigned

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

Acuite 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 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.