

Press Release

United Cooling Systems Private Limited

August 19, 2019

Rating Assigned and Reaffirmed



Total Bank Facilities Rated*	Rs. 13.08 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to Rs.11.08 crore bank facilities and assigned short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.2.00 crore bank facilities of United Cooling Systems Private Limited (UCPL). The outlook is '**Stable**'.

Coimbatore-based, United Cooling Systems Private Limited was incorporated in 1994 by Mr. Krishnavelu. It is engaged in manufacturing of cooling towers and heat exchangers. The company caters to reputed customers including Indian Oil Corporation Limited (IOCL), ITC Limited, Ultratech Cement Limited (UCL) and GASOS among others. Further, the company also exports its products to other countries as well.

Analytical Approach

Acuite has considered standalone business and financial risk profile of UCPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established industrial presence

The company has been in operations, since 1994. The operations are managed by Mr. Krishnavelu who possess more than 3 decades of experience in the capital good industry. The long standing presence of the promoters has led to establishing healthy relationship with customers and suppliers. The company caters to reputed customers like Indian Oil Corporation Limited, ITC Limited, Petrofac among others.

Acuite believes that promoters' entrepreneurial experience and healthy relationship with customers will support UCPL's business risk profile over the medium term.

Weaknesses

• Weak financial risk profile

The financial risk profile of the company is weak marked by high gearing of 4.85 times as on March 31, 2019 (provisional) as compared to 4.86 times as on March 31, 2018. The tangible networth stood low at Rs. 2.66 crore as on 31 March, 2019 (provisional) as against Rs. 2.08 as on 31 March, 2018. The Interest Coverage Ratio stood moderate at 1.47 times for FY 2019 (provisional) as against 1.68 times for FY 2018. DSCR also saw a decline at 1.23 times for FY 2019 (provisional) as compared to 1.35 times for FY 2018. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood high at 5.34 times as on 31 March, 2019 (provisional) as against 6.05 times as on 31 March, 2018. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.06 times for FY 2019 (provisional).

• Working capital intensive nature of operation

The company's operations are working capital intensive marked by high gross current asset (GCA) days of 313 in FY 2019 (provisional) which has reduced from 326 days in FY 2018. The GCA days have decreased marginally due to reduction in other current asset. The GCA days are stretched 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.

The inventory holding days stood high at 247 days during FY2019 (provisional) and FY2018 as well. Also, the debtors' days stood high at 114 as on March 31, 2019 (provisional) as compared to 105 days as on March 31, 2018.

Liquidity Position

The liquidity of the company stood weak marked by high debt obligations vis-à-vis net cash accruals to its maturing debt obligations. The bank limit utilisation was fully utilized for the six months ended June 2019. The utilisation is expected to remain high on account of large working capital requirement. The current ratio of the company stood at 2.05 times for FY 2019 (provisional).

Outlook: Stable

Acuite believes UCPL will maintain a 'Stable' business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher than-expected growth in revenues and net cash accruals while improving debt protection metrics. Conversely the outlook may be revised to 'Negative' in case the company undertakes debt funded capex or higher than expected working capital requirements further deteriorating its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	16.02	13.03	8.44
EBITDA	Rs. Cr.	2.84	2.07	1.58
PAT	Rs. Cr.	0.42	0.42	0.27
EBITDA Margin	(%)	17.75	15.91	18.75
PAT Margin	(%)	2.60	3.21	3.22
ROCE	(%)	18.09	16.66	16.73
Total Debt/Tangible Net Worth	Times	4.85	4.86	5.20
PBDIT/Interest	Times	1.47	1.68	1.65
Total Debt/PBDIT	Times	4.53	4.85	5.11
Gross Current Assets (Days)	Days	313	326	422

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Jul-2019	Cash Credit	Long Term	5.00	ACUITE B (Indicative)
	Term Loan	Long Term	1.32	ACUITE B (Indicative)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Indicative)
	Proposed Bank Guarantee	Long Term	3.18	ACUITE B (Indicative)
08-Jun-2018	Cash Credit	Long Term	5.00	ACUITE B/Stable (Assigned)
	Term Loan	Long Term	1.32	ACUITE B/Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Long Term	3.18	ACUITE B/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.08 (Reduced from Rs.1.32 crore)	ACUITE B/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs.3.00 crore)	ACUITE A4 (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)

Contacts

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About Acuité Ratings & Research:

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