

Press Release

United Cooling Systems Private Limited

January 29, 2021

Rating Upgraded, Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 15.90 Cr. (Enhanced from Rs. 13.08 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded & Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B-**' (read as **ACUITE B minus**) on the Rs. 7.85 crore bank facilities of United Cooling Systems Private Limited (UCSPL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 3.05 crore bank facilities of United Cooling Systems Private Limited (UCSPL). The outlook is 'Stable'.

Acuite has reaffirmed the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 5.00 cr. bank facilities of United Cooling Systems Private Limited (UCSPL). The outlook is '**Stable**'.

Reason for rating upgrade

The rating upgrade is in view of improved scale of operations supported by improvement in scale of operations, financial risk profile and liquidity position. The operating income of UCSPL has increased from Rs. 13.03 in FY2018 to Rs. 15.86 in FY2019 to Rs. 20.70 in FY2020 (Provisional) resulting in an increase at a two-year CAGR of 26.04 per cent. UCSPL has also booked revenue of Rs. 13.45 crore in 8MY2021 despite having no sales in April 2020 and for most part of May 2020. The company has healthy profitability marked by EBITDA margin of 15.49 percent and net profit margin of 4.40 per cent in FY2020 (Provisional).

Further, there is a significant improvement in overall financial risk profile of the firm on account of infusion of capital and improvement in net profitability. Net worth stood at Rs. 4.09 crore as on 31st March 2020 (Provisional) as against Rs. 2.57 crore as on 31st March 2019. The improvement in net worth is on account of infusion of capital by promoters and healthy profitability. Gearing improved from 4.97 times as on 31st March 2019 to 2.81 times as on 31st March 2020 (Provisional). Also, total outside liabilities to total net worth (TOL/TNW) stood at 3.47 times as on FY2020 (Provisional) vis-à-vis 6.02 times as on FY2019. Further, the interest coverage ratio of the firm stood at 1.65 times as on 31st March 2020 (Provisional).

About the company

United Cooling Systems Private Limited (UCPL) is a Coimbatore based company, incorporated in 1994 by Mr. Krishnavelu. The company is engaged in manufacturing of cooling towers & heat exchanges. The company also provides after sales services to its clients. The company has its presence in India as well as foreign market and caters to reputed clientele that includes GAIL Limited, Indian Oil Corporation Limited, Vedanta Limited and ITC limited, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management, established track record of operations and reputed clientele**

The company has been manufacturing cooling towers & heat exchangers since 1994. The operations are managed by Mr. Krishnavelu who has almost three decades of experience in the above-mentioned line of business. 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 and Vedanta Limited, among others.

Acuite expects UCPL to benefit from the established relationship with customers in securing repeated orders and vast experience of the promoters to support the business risk profile over the medium term.

- **Improved Financial Risk Profile**

The financial risk profile of UPSCL has improved marked by infusion of capital, substantial improvement in gearing & debt protection metrics. The company's net worth stood at Rs. 4.09 Cr as on 31st March 2020 (Provisional) as against Rs. 2.57 Cr as on 31st March 2019. The net worth has seen healthy improvement over the last three years on account of infusion of capital and increase in net profitability.

The promoters have infused capital to the extent of Rs. 0.60 crore in FY2020 (Provisional). This led to improvement in gearing levels (debt-to-equity) to 2.81 times as on March 31, 2020 (Provisional) as against 4.97 times as on March 31, 2019 & total outside liabilities to total net worth (TOL/TNW) to 3.47 times as on FY2020 (Provisional) vis-à-vis 6.02 times as on FY2019. Further, the interest coverage ratio stood at 1.65 times for FY2020 (Provisional) as against 1.60 times in FY2019.

Acuite believes that the financial risk profile of UCSPL is expected to further improve on account of improvement in profitability and absence of any debt-funded capex over the medium term.

Weaknesses

- **Small scale of operations**

The company has reported operating income of Rs. 20.70 crore for FY2020 (Provisional) as compared to Rs. 15.86 crore in the previous year in spite of being in operation for two decades.

- **Improved yet intensive working capital nature of operations**

The company has improved yet intensive working capital requirements as evident from gross current assets (GCA) of 265 days in FY 2020 (Provisional) as against 318 days in FY 2019. The improvement is on account of improvement in inventory days as well as debtors' days. Inventory days improved from 260 days in FY2019 to 199 days in FY2020 (Provisional). While Debtors' days stood at 54 days in FY2020 (Provisional) as against 112 days in FY2019. 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. Further, Creditors' days stood at 27 days in FY2020 (Provisional) as against 54 days in FY2019. Acuite expects the working capital operations of the UPSCL to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

Rating Sensitivity

- Deterioration in profitability metrics.
- Substantial improvement in working capital management.
- Significant decline in scale of operations

Material Covenants

None

Liquidity position: Adequate

UCSPL has adequate liquidity profile marked by adequate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 1.21 crore for FY2020, while its maturing debt obligations were Rs. 0.70 crore for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 265 days in FY2020 (Provisional). The current ratio of the company stood at 1.73 times for FY 2020 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 1.16 crore as on 31 March, 2020 (Provisional). The fund-based working capital limits of UCSPL remains utilised at 94.52 per cent over the last 8 months till November, 2020. The utilization is expected to remain high on account of large working capital requirement. In addition, UCSPL has availed the benefits of Covid-19

Regulatory Package announced by Reserve Bank of India (RBI). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against debt obligations over the medium term.

Outlook: Stable

Acuite believes that UCPL will maintain a 'Stable' outlook and will continue to derive benefits over the medium term due to experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	20.70	15.86
PAT	Rs. Cr.	0.91	0.49
PAT Margin	(%)	4.40	3.07
Total Debt/Tangible Net Worth	Times	2.81	4.97
PBDIT/Interest	Times	1.65	1.60

Status of non-cooperation with previous CRA

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-Nov-2020	Cash Credit	Long term	5.00	ACUITE B- Downgraded & Issuer not co-operating*
	Term Loan	Long term	1.08	ACUITE B- Downgraded & Issuer not co-operating*
	Bank Guarantee	Short Term	5.00	ACUITE A4 Issuer not co- operating*
	Packing Credit	Short Term	2.00	ACUITE A4 Issuer not co- operating*
19-Aug-2019	Cash Credit	Long term	5.00	ACUITE B/Stable (Reaffirmed)
	Term Loan	Long term	1.08	ACUITE B/Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Packing Credit	Short Term	2.00	ACUITE A4 (Assigned)

25-Jul-2019	Cash Credit	Long term	5.00	ACUITE B Issuer not cooperating*
	Term Loan	Long term	1.32	ACUITE B Issuer not cooperating*
	Bank Guarantee	Short Term	3.00	ACUITE A4 Issuer not cooperating*
	Proposed bank Guarantee	Long term	3.18	ACUITE B Issuer not co-operating*
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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/Stable (Upgraded from ACUITE B-)
Term loans	Not Applicable	11.50%	Not Applicable	0.85	ACUITE BB-/Stable (Upgraded from ACUITE B-)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/Stable (Upgraded from ACUITE B-)
Working Capital Demand Loan - I	06/03/2020	11.70%	31/09/2021	1.25	ACUITE BB-/Stable (Assigned)
Working Capital Demand Loan - II	23/06/2020	8.75%	31/06/2025	0.50	ACUITE BB-/Stable (Assigned)
Working Capital Demand Loan - III	23/06/2020	7.90%	31/06/2024	1.30	ACUITE BB-/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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