

## Press Release

### United Cooling Systems Private Limited

May 17, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.90	ACUITE BB-   Stable   Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A4   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	15.90	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.15.90 crore bank facilities of United Cooling Systems Private Limited (UCSPL). The outlook is '**Stable**'.

The ratings reaffirmed continue to be supported by the promoters' experience of over three decades in the manufacturing industry, which has helped the company establish strong relationships with customers as well as suppliers. The rating is, albeit, constrained by its working capital-intensive nature of operations and modest scale of operations.

### About the Company

Incorporated in 1994, United Cooling Systems Private Limited (UCSPL) is Coimbatore (Tamilnadu) based company, engaged in manufacturing of cooling towers & heat exchange. It has one manufacturing plants, in combioture, with a total manufacturing capacity of 445 units per annum. Mr. Vairavan Krishnavelu, Mrs. Nagalingam Anusuyadevi, Mr. Krishnavelu Yokeshwaran, Ms. Krishnavelu Mounika are the directors of the company.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the UCSPL 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. Acuité expects UCSPL 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.

## Weaknesses

- **Below Average financial risk profile**

UCSPL has a below average financial risk profile mainly marked by low net worth, moderate gearing and debt protection matrices. The tangible net worth of the company stood low at Rs.3.94 Cr as on 31 March, 2021 as against Rs.3.56 Cr as on 31 March, 2020. The gearing of the company stood at 3.77 times in as on 31 March, 2021 as against 3.22 as on 31 March, 2020. The total debt as on 31 March, 2021 consist of working capital limits from banks of Rs.14.84 Cr. Further, the interest coverage ratio stood at 1.44 times as on 31 March, 2021 as against 1.52 times as on 31 March, 2020. The debt to EBITDA of the company stood at 5.39 times as on 31 March, 2021 as against 3.94 times as on 31 March, 2020. However, the TOL/TNW stood to 4.11 times as on 31 March, 2021 as against 4.79 times as on 31 March, 2020. Acuité believes that the UCSPL's financial risk profile will remain moderate over the medium term.

- **Modest scale of current operations**

The Company's scale of operations is modest marked by total operating income of Rs. 21.36 in FY2021 as compared to Rs. 20.69 Cr in FY2020. UCSPL achieved revenue of Rs. 22.64 Cr in FY2022 on provisional basis, indicating a Y-o-Y increase of ~5.5 percent. UCSPL reported EBITDA margin of 12.62 percent in FY2021 (FY2020: 13.91 percent) with a return on capital employed of 13.75 percent in FY2021 (FY2020: 16.51 percent). Acuité believes improvement in its scale and profitability over the near term will critical over medium term backed by rise in capacity addition or utilization

- **Working capital intensive operations** □

UCSPL's operations is working capital intensive marked by high Gross Current Asset (GCA) days of 265 days as on 31 March, 2021 as against 297 days as on 31 March, 2020. This is majorly on account of increase in debtor days to 124 days as on 31 March, 2021 as against 82 days as on 31 March, 2020. Inventory days stood at 138 days as on 31 March, 2021 as against 204 days as on 31 March, 2020. Subsequently, the payable period decreased to 22 days as on 31 March, 2021 as against 37 days as on 31 March, 2020 respectively. Further, the average bank limit utilization in the last twelve months ended Jan 22 remained moderate at ~87.9 percent for fund based facility and 63.1 percent for non-fund based facility. Acuité believes that the operations of the UCSPL will remain working capital intensive over the medium term.

## Rating Sensitivities

### Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

### Negative

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile

## Material covenants

None

## Liquidity Position: Adequate

The liquidity profile of UCSPL is adequate reflected by high GCA of 265 days in FY2021 as against 297 days in FY2020. The working capital requirement is funded through bank lines which has been utilized around 87.9 percent in last twelve months ended January 22. The company has reported cash accruals of Rs.0.79 Cr. in FY2021 and expected to generate cash accruals in the range of Rs.0.93-2.00 Cr against CPLTD of Rs.0.40-1.7 Cr over the medium term. Unencumbered cash and bank balances stood at Rs.0.16 Cr as on March 31, 2021. The current ratio of the company stood at 1.64 times in FY2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of working capital intensive nature of operations.

## Outlook: Stable

Acuite believes that UCSPL will continue to benefit over the medium term due to its experienced management and established relations with its stake holders. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Company generates lower-than-anticipated cash accruals, sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex or any significant investments in group entities, or any significant withdrawal of capital thereby impacting its financial risk profile, particularly its liquidity.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	21.49	20.78
PAT	Rs. Cr.	0.38	0.38
PAT Margin	(%)	1.76	1.84
Total Debt/Tangible Net Worth	Times	3.77	3.22
PBDIT/Interest	Times	1.52	1.44

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Cash Credit	Long Term	5.00	ACUITE BB- ( Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	1.25	ACUITE BB- ( Issuer not co-operating*)

21 Apr 2022	Working Capital Demand Loan	Long Term	1.30	ACUITE BB- ( Issuer not co-operating*)
	Packing Credit	Long Term	2.00	ACUITE BB- ( Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB- ( Issuer not co-operating*)
	Bank Guarantee	Short Term	5.00	ACUITE A4 ( Issuer not co-operating*)
	Term Loan	Long Term	0.85	ACUITE BB- ( Issuer not co-operating*)
29 Jan 2021	Cash Credit	Long Term	5.00	ACUITE BB-   Stable (Upgraded from ACUITE B-)
	Term Loan	Long Term	0.85	ACUITE BB-   Stable (Upgraded from ACUITE B-)
	Working Capital Demand Loan	Long Term	1.25	ACUITE BB-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.30	ACUITE BB-   Stable (Assigned)
	Packing Credit	Long Term	2.00	ACUITE BB-   Stable (Upgraded from ACUITE B-)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB-   Stable (Assigned)
02 Nov 2020	Cash Credit	Long Term	5.00	ACUITE B- (Downgraded and 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*)
	Term Loan	Long Term	1.08	ACUITE B- (Downgraded and Issuer not co-operating*)
19 Aug 2019	Packing Credit	Short Term	2.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE B   Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	1.08	ACUITE B   Stable (Reaffirmed)
25 Jul 2019	Bank Guarantee	Short term	3.00	ACUITE A4 (Issuer not co-operating*)
	Proposed Bank Guarantee	Long Term	3.18	ACUITE B (Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE B (Issuer not co-operating*)
	Term Loan	Long Term	1.32	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 Facility	Long Term	3.18	ACUITE B   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4   Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.85	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	1.25	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.50	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	1.30	ACUITE BB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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