

Press Release
United Cooling Systems Private Limited
August 04, 2023
Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.90	ACUITE B Stable Upgraded	-
Bank Loan Ratings	5.00	-	ACUITE A4 Upgraded
Total Outstanding Quantum (Rs. Cr)	15.90	-	-

Rating Rationale

Acuite has upgraded its long term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE D**' (read as **ACUITE D**) and its short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.15.90 Cr. bank facilities of UNITED COOLING SYSTEMS PRIVATE LIMITED (UCSPL). The outlook is '**Stable**'.

Rationale for Upgrade

The rating upgrade is majorly on account of timely repayment of the its debt obligations including both interest and principal March 2023. The company has delayed towards payment of its debt obligations during January 2023 and March 2023. The rating also considers the experienced management, improvement in the track record of operations and reputed clientele. However, the rating is constrained due to its weak financial risk profile, stretched liquidity position and working capital intensive nature 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 Coimbatore, 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. Acuite 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.

The established track record of company and extensive experience have helped UCSPL to establish long working relations with top customers. The revenue of the company seen a growth of 79 percent in FY2023 with operating revenue of Rs.40.38 crore in FY 2023 (prov) as against Rs.22.51 crore in FY 2022.

Acuité believes that UCSPL will continue to benefit from the established presence in the industry and its promoter's experience over the medium term.

Weaknesses

Weak financial risk profile

UCSPL has a weak financial risk profile mainly marked by low net worth, high gearing and moderate debt protection matrices. The tangible net worth of the company stood low at Rs.5.12 crore as on March 31, 2023 (prov) against Rs.4.32 crore as on March 31, 2022. The gearing of the company stood high despite marginal improvement at 3.27 times in as on 31 March, 2023 (prov) as against 3.71 as on 31 March, 2022. Further, the interest coverage ratio stood at 1.49 times as on 31 March, 2023 (prov) as against 1.51 times as on 31 March, 2022. The debt to EBITDA of the company stood at 4.14 times as on 31 March, 2023 (prov) as against 5.24 times as on 31 March, 2022. However, the TOL/TNW stood to 4.02 times as on 31 March, 2023 (prov) as against 4.38 times as on 31 March, 2022.

Acuité believes that the improvement in UCSPL's financial risk profile will remain a key monitorable over the medium term.

Working capital intensive operations

UCSPL's operations is working capital intensive marked by high Gross Current Asset (GCA) days of 180 days as on 31 March, 2023 (prov) as against 263 days as on 31 March, 2022. GCA majorly consists of inventory and debtors. Debtors days has improved and stood at 43 days in 31 March 2023 (prov) against 62 days in 31 March 2022. The inventory days have improved and stood at 126 days in 31 March 2023 (prov) against 182 days in 31 March 2022. Subsequently, the payable period decreased to 20 days as on 31 March, 2023 (prov) as against 22 days as on 31 March, 2022 respectively. Further, the average bank limit utilization in the last six months ended May 2023 remained fully utilised for fund based facility and 97.27 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

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the company.

Material covenants

None

Liquidity Position: Stretched

The liquidity profile of UCSPL is Stretched on account of fully utilisation of its working capital limits owing to working capital intensive nature of operations. The company has high GCA of 180 days as on 31 March 2023 (prov) as against 263 days as on 31 March 2022. The working capital requirement is funded through bank lines which has been fully utilized in last six months ended May 2023. The company has reported cash accruals of Rs.1.33 crore in FY2023 (prov), and Rs.0.86 crore in FY2022 against the repayment obligations of Rs.0.51 crore in FY2023 (prov) and Rs.0.40 crore in FY2022. Unencumbered cash and bank balances stood at Rs.0.26 Cr as on March 31, 2023 (prov). The current ratio of the company stood at 1.44 times in FY2023 (prov). Acuité believes that the liquidity position of the company will continue to remain stretched on account of fully utilisation of its working capital facilities.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	40.38	22.51
PAT	Rs. Cr.	0.80	0.39
PAT Margin	(%)	1.98	1.73
Total Debt/Tangible Net Worth	Times	3.27	3.71
PBDIT/Interest	Times	1.49	1.51

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>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Aug 2023	Bank Guarantee	Short Term	5.00	ACUITE D (Downgraded from ACUITE A4)
	Cash Credit	Long Term	5.00	ACUITE D (Downgraded from ACUITE BB- Stable)
	Working Capital Demand Loan	Long Term	1.25	ACUITE D (Downgraded from ACUITE BB- Stable)
	Working Capital Demand Loan	Long Term	1.30	ACUITE D (Downgraded from ACUITE BB- Stable)
	Term Loan	Long Term	0.85	ACUITE D (Downgraded from ACUITE BB- Stable)
	Working Capital Demand Loan	Long Term	0.50	ACUITE D (Downgraded from ACUITE BB- Stable)
	Packing Credit	Short Term	2.00	ACUITE D (Downgraded from ACUITE A4)
17 May 2022	Packing Credit	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.85	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.25	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.30	ACUITE BB- Stable (Reaffirmed)
21 Apr 2022	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*)
	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-)
		Short		

	Bank Guarantee	Term	5.00	ACUITE A4 (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.50	ACUITE BB- Stable (Assigned)
02 Nov 2020	Term Loan	Long Term	1.08	ACUITE B- (Downgraded and Issuer not co-operating*)
	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*)

Annexure - Details of instruments rated

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

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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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