

Press Release

United Global Corporation Limited

August 25, 2021



Rating Downgraded & Assigned

Total Instruments Rated*	Rs. 168.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Downgraded)
Short Term Rating	ACUITE A2 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long term rating to '**ACUITE BBB+**' (**read as ACUITE Triple B Plus**) from '**ACUITE A-**' (**read as ACUITE A Minus**) and the short term rating to '**ACUITE A2**' (**read as ACUITE A Two**) from '**ACUITE A2+**' (**read as ACUITE A Two Plus**) on the Rs. 168.00 Cr bank facilities of United Global Corporation Limited (UGCL). The outlook is '**Stable**'.

The rating downgrade is driven by deterioration of the liquidity emanating from significant decline in scale of operations from Rs 306.27 Cr in FY20 to Rs 202.07 Cr FY21 (Prov) coupled with stretch in working capital position as observed from deterioration in Gross Current Assets days from 203 days in FY20 to 263 days in FY21 (Prov). This has led to increase in reliance on external funding sources and reduction in cushion available in working capital limits. The company's working capital limits remains almost fully utilized for the last 6 months' period ended June 2021

The rating however continues to reflects the experience of the promoters in infrastructure construction industry, moderate order book providing revenue visibility over medium term and strong operating margins. The aforementioned rating strengths were constrained by the tender based nature of operations, volatility in raw material pricing impacting the profitability of the company and the geographical concentration of the order book of the company.

About the Company

Karnataka based United Global Corporation Limited (Formerly known as United Infra Developers Limited) was incorporated in 2009. The company promoted by Mr. M Vamsidhar and Mr. M R Prasad is engaged in undertaking civil construction works including water supply projects, buildings, irrigation projects, industrial projects, road projects and power transmission projects in Karnataka, Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana. UGCL is a registered Class 1 contractor for various departments including Public Work Departments (PWD), Panchayat Raj Engineering Department (PRED), Public Health Engineering Department among others.

Analytical Approach

Acuité has considered the standalone financials and risk profile of UGCL to arrive at the rating. It is to be noted that in previous years, Acuité had considered a consolidated approach together with Sri Srinivasa Construction India Private Limited (SSC) and United Infra Minerals Private Limited (UIMPL). But the promoters of SSC have confirmed that they currently do not have any interests/investments in SSC and UIMPL and these businesses are managed separately.

Key Rating Drivers

Strengths

- **Experienced promoters and Established nature of operations**

The company promoted by Mr. M Vamsidhar and Mr. M R Prasad is engaged in undertaking civil construction works including water supply projects, buildings, irrigation projects, industrial projects, road projects and power transmission projects in Karnataka, Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana. The promoters have more than a decade of experience in infrastructural construction industry. UGCL is a registered Class 1 contractor for various departments including Public Work Departments (PWD), Panchayat Raj Engineering Department

(PRED), Public Health Engineering Department among others. Acuité believes, the company will be able to generate business considering the experience of the promoters and the class 1 contractor license status over long term.

- **Strong Order Book position**

UGCL as on 30 June 2021 had projects worth Rs 1380 Cr to be executed in next 36-48 months providing stable revenue visibility for medium term. UGCL bids for a wide variety of projects and has a bidding success ratio of 60 percent. Further Majority of the projects bid by UGCL is in irrigation and sanitation segment which is less crowded with fewer number of players unlike roads and bridges segment. Acuité believes, favorable bid success ratios and fewer competition will benefit the company in maintaining the profitability of the company.

- **Healthy profitability levels**

The company's margins were strong despite the volatility induced by the pandemic. The company reported a marginal improvement in operating and net profit margins. The operating margins improved from 9.09 per cent in FY20 to 9.79 per cent in FY21 (Prov). The net profit margins improved from 4.40 per cent to 5.25 per cent over the same period.

- **Moderate Financial risk profile**

UGCL financial position is marked by moderate net worth and capital structure, average coverage indicators. Net worth of the company improved to Rs 92.76 Cr as on 31 March 2021 (Provisional) improving from Rs 82.15 Cr as on 31 March 2020. The adjusted gearing improved from 0.52 times in FY20 to 0.45 times in FY21 (Prov) (gearing adjusted for unsecured loans from promoters). While the total outside liabilities to net worth improved from 2.50 times to 1.74 times over the same period. The promoters had maintained Rs 23.29 Cr of unsecured loans as on FY21 (Prov) down from Rs 28.95 Cr in FY20. As per management discussion, the promoters plan to maintain unsecured loans in the company for medium term.

Coverage indicators were modest with DSCR in the range of 1.48 times to 1.87 times over the past 3 years ended FY21 (Prov) and Interest Coverage in the range of 2.78 times to 3.02 times over the same period. The finance cost was high primarily due to finance charges associated with bank guarantee outstanding provided as retention money. Acuité believes, the company will be able maintain its financial risk profile considering the asset light structure and strong order book position over medium term.

Weaknesses

- **Volatile raw material prices impacting profitability and Tender based nature of Operations**

Most EPC projects undertaken by the company has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

UGCL operates in infrastructural construction industry which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the company are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on profitability of the company where the bidding can get aggressive.

Acuité believes, tender based nature of operations and volatility in raw material pricing can put strain of the margins to an extent which is mitigated by fewer number of players in projects related to irrigation and water supply and index linked price escalation clauses.

- **Geographic concentration of projects**

Majority of the projects executed by the company are based out of Karnataka which is responsible for a large portion of the revenue in FY20 resulting in exposure to significant geographical and political risk. The company also have diversified to some extend picking up projects in Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana.

- **Working capital intensive nature of operations:**

While the average peak utilization of working capital facilities for past 6 months ended June 2021 was on higher side at 99 per cent. The gross current asset days were in the range of 138 to 263 days primarily due to higher quantum of work in progress which could not be verified by respective authorities so as to achieve milestones for billing. Though the utilization of the working capital facilities is on higher side, the limits approved assessment by Canara Bank is Rs 60.00 Cr of which the company has utilized only Rs 36.00 Cr. Acuité believes, the operations of the company will be working capital intensive, considering the delays in clearing of dues from state government entities which are facing funding deficits.

Liquidity Position: Stretched

UGCL's liquidity position was stretched average peak utilization of working capital facilities for past 6 months ended June 2021 was on higher side at 99 per cent. The gross current asset days were in the range of 138 to 263 days primarily due to higher quantum of work in progress which could not be verified by respective authorities so as to achieve milestones for billing. Though the net cash accruals were stable in the range of Rs 10.62 Cr to Rs 14.69 Cr over the past 3 years while the repayments were in the range of Rs 1.14 Cr to Rs 3.25 Cr over the same period. The risk associated with liquidity position is mitigated by higher approved assessment by Canara Bank of Rs 60.00 Cr as working capital limits which the company has got sanction for Rs 36.00 Cr. Further to this, the NCA for FY21-23 far exceeds the term loan repayments and the support in the form of unsecured loans from promoters. Acuité believes, the company's cash generation to be stable considering the order book position due to be completed over next 12-36 months and stable operating profile.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins.
- Deterioration in working capital cycle and any unplanned significant capex to deterioration of financial risk profile and liquidity.
- Timely execution of current order book without any cost overrun.

Outlook: Stable

Acuité believes that UGCL will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters and the healthy order-book position. The outlook may be revised to 'Positive' if the company is able to demonstrate substantial growth in revenues and healthy profitability. Conversely, the outlook may be revised to 'Negative' if there is any slowdown in order execution, or cost escalation results in lower-than-expected cash accruals; or if any major capital expenditure or stretch in the working-capital cycle weakens liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	202.07	306.27
PAT	Rs. Cr.	9.42	13.47
PAT Margin	(percent)	4.66	4.40
Total Debt/Tangible Net Worth	Times	0.71	0.88
PBDIT/Interest	Times	2.78	2.99

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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
19 Dec 2019	Cash Credit	Long term	19.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	10.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	7.00	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee	Short term	50.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short term	20.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short term	28.00	ACUITE A2+ (Reaffirmed)
	Proposed short term Facilities	Short term	34.00	ACUITE A2+ (Reaffirmed)
28 Jun 2019	Cash Credit	Long term	19.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short term	40.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Guarantee	Short term	109.00	ACUITE A2+ (Reaffirmed)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Cash Credit	Not Applicable	9.50%	Not Applicable	19.00	ACUITE BBB+/Stable (Downgraded from ACUITE A-/ Stable)
ICICI Bank	Cash Credit	Not Applicable	9.65%	Not Applicable	10.00	ACUITE BBB+/Stable (Downgraded from ACUITE A-/ Stable)
Yes Bank	Cash Credit	Not Applicable	11.50%	Not Applicable	7.00	ACUITE BBB+/Stable (Downgraded from ACUITE A-/ Stable)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Downgraded from ACUITE A2+)
ICICI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 (Downgraded from ACUITE A2+)
Yes Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A2 (Downgraded from ACUITE A2+)
Yes Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Assigned)
Not Applicable	Proposed Short Term Facilities	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A2 (Downgraded from ACUITE A2+)

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About Acuité Ratings & Research:

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