

Press Release

United Global Corporation Limited

December 07, 2022

Rating Downgraded



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--|----------------------------|
| Bank Loan Ratings | 36.00 | ACUITE BBB Stable Downgraded Negative to Stable | - |
| Bank Loan Ratings | 132.00 | - | ACUITE A3+ Downgraded |
| Total Outstanding Quantum (Rs. Cr) | 168.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE Triple B Plus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2**' (read as **ACUITE A Two**) on the Rs. 168.00 Cr bank facilities of United Global Corporation Limited (UGCL). The outlook is revised to '**Stable**' from 'Negative'.

Rationale for downgrade

Downgrade in ratings takes into account the stretch in working capital cycle, high reliance on working capital limits and decline in scale of operations. Company has registered stretch in working capital year on year since FY 2020 wherein working capital cycle days have stretched from 78 days in FY 2020 to 109 days in FY 2021 and further stretched to 201 days in FY 2022 along with increase in GCA days from 206 days in FY 2020 to 249 days in FY 2021 and further moderation to 279 days in FY 2022. This has resulted in increased reliance of the company on working capital limits wherein average bank utilization has remained high at 96.40% in the last 6 months. Although company has registered growth in revenues in FY 2022 however the scale of operations has yet not reached pre covid levels. Going forward company's management of working capital and timely execution of order book will remain key rating sensitivities.

Rationale for revision in outlook

Outlook has been revised from Negative to Stable. The outlook revision takes into account the improvement in revenue coupled with healthy order book position giving sufficient revenue visibility. However, company has experienced stretch in working capital cycle along with continued high limit utilization but since majority of the orders being executed are for government entities hence it mitigates the funding risk for 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 business risk profile of UGCL to arrive at the rating.

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.

Healthy profitability levels

Profitability has improved wherein EBITDA margin improved marginally from 9.09% in FY 2020 to 9.13% in FY 2021 and further improved to 10.35% in FY 2022. PAT margin has improved from 4.40% in FY 2020 to 4.76% in FY 2021 and further improved to 4.88% in FY 2022.

Moderate Financial risk profile

Company's financial risk profile remained moderate with slight improvement in FY 2022 marked by strong net worth and comfortable debt protection metrics. Net worth stood at Rs. 103.29 Cr in FY 2022 as against Rs. 91.83 Cr in FY 2021. Total debt in FY 2022 stood at Rs. 58.44 Cr, which consists of Rs. 6.78 Cr of long term borrowings, Rs. 3.22 Cr of unsecured loans and Rs. 46.52 Cr of working capital borrowings and Rs. 1.93 Cr of CPLTD. Debt to Equity remained moderate at 0.58 times and 0.57 times in FY 2021 and FY 2022 respectively. Interest Coverage ratio improved marginally from 2.85 times in FY 2021 to 2.95 times in FY 2022. DSCR moderated from 1.88 times in FY 2021 to 1.86 times in FY 2022. NCA/TD metric improved marginally from 0.20 times in FY 2021 to 0.22 times in FY 2022. TOL/TNW increased from 1.27 times in FY 2021 to 1.42 times in FY 2022. While Debt-EBITDA improved from 2.52 times in FY 2021 to 2.31 times in FY 2022.

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 on 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 FY22 resulting in exposure to significant geographical and political risk. The company also have diversified to some extent picking up projects in Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana.

Working capital intensive nature of operations

Company's operations are working capital intensive marked by GCA days of 279 in FY 2022 as against 249 in FY 2021. High GCA days is primarily due to higher quantum of work in progress which could not be verified by respective authorities so as to achieve milestones for billing and increase in amount of receivables in FY 2022. Quantum of work which remained in work in progress increased from Rs. 71.66 Cr in FY 2021 to Rs. 121.09 Cr in FY 2022. Debtor days increased from 42 days in FY 2021 to 71 days in FY 2022. As per the management the increased debtors is a result of high last month billing because of which receivables as on 31st March 2022 increased. Creditor days have remained between 79-80 days between FY 2020 to 2022. As a result, average bank limit utilization has stood high at 96.40% for the last 6 months' period between April 2022 to October 2022.

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.

Material covenants

None.

Liquidity Position Stretched

Company liquidity position is stretched. Company's average bank limit utilization has stood high at 96.40% for the last 6 months' period between April 2022 to October 2022. In FY 2022 company generated net cash accruals of Rs. 12.88 Cr against maturing debt obligation of Rs. 2.95 Cr. Going forward company is expected to generate NCA of Rs. 19.13 Cr and Rs. 21.86 Cr against maturing debt obligations of Rs. 1.93 Cr and Rs. 2.15 Cr in FY 2023 and 2024 respectively. Company has FD deposits of Rs. 21.17 Cr in FY 2022 out of which around Rs. 6.35 Cr is unencumbered while rest of the amount is lien marked against non-fund based facilities. As of September 2022 company has unencumbered fixed deposits of Rs. 10.25 Cr.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margin, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than expected working capital requirements.

Other Factors affecting Rating

None.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 234.77 | 203.27 |
| PAT | Rs. Cr. | 11.46 | 9.68 |
| PAT Margin | (%) | 4.88 | 4.76 |
| Total Debt/Tangible Net Worth | Times | 0.57 | 0.58 |
| PBDIT/Interest | Times | 2.95 | 2.85 |

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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 |
|-------------|--------------------------------|------------|-----------------|---|
| 08 Sep 2021 | Bank Guarantee | Short Term | 28.00 | ACUITE A2 (Reaffirmed) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A2 (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 24.00 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A2 (Reaffirmed) |
| | Cash Credit | Long Term | 19.00 | ACUITE BBB+ Negative (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2 (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB+ Negative (Reaffirmed) |
| | Cash Credit | Long Term | 7.00 | ACUITE BBB+ Negative (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable) |
| | Bank Guarantee | Short Term | 28.00 | ACUITE A2 (Downgraded from ACUITE A2+) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A2 (Assigned) |

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|-------------|-------------------------|------------|--------|---|
| 25 Aug 2021 | Cash Credit | Long Term | 19.00 | ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A2 (Downgraded from ACUITE A2+) |
| | Cash Credit | Long Term | 7.00 | ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2 (Downgraded from ACUITE A2+) |
| | Proposed Bank Facility | Short Term | 24.00 | ACUITE A2 (Downgraded from ACUITE A2+) |
| 19 Dec 2019 | Bank Guarantee | Short Term | 20.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 28.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 19.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 34.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 7.00 | ACUITE A- Stable (Reaffirmed) |
| 28 Jun 2019 | Cash Credit | Long Term | 19.00 | ACUITE A- (Issuer not co-operating*) |
| | Proposed Bank Guarantee | Short Term | 109.00 | ACUITE A2+ (Issuer not co-operating*) |
| | Letter of Credit | Short Term | 40.00 | ACUITE A2+ (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 |
|----------------|----------------|------------------------------------|------------------|----------------|----------------|------------------|-------------------|---|
| Canara Bank | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 50.00 | ACUITE A3+ Downgraded |
| ICICI Bank Ltd | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE A3+ Downgraded |
| Yes Bank Ltd | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 28.00 | ACUITE A3+ Downgraded |
| Canara Bank | Not Applicable | Cash Credit | Not Applicable | 9.50 | Not Applicable | Simple | 19.00 | ACUITE BBB Stable Downgraded Negative to Stable |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 9.65 | Not Applicable | Simple | 10.00 | ACUITE BBB Stable Downgraded Negative to Stable |
| Yes Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 11.50 | Not Applicable | Simple | 7.00 | ACUITE BBB Stable Downgraded Negative to Stable |
| Yes Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A3+ Downgraded |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 24.00 | ACUITE A3+ Downgraded |

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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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