Press Release

United Infra Minerals Private Limited

December 19, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.15.66 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and short-term rating of **'ACUITE A2+' (read as ACUITE A two plus)** to the Rs.15.66 crore bank facilities of UNITED INFRA MINERALS PRIVATE LIMITED. The outlook is **'Stable'.**

The rating continues to reflect Srinivasa group's established market position in the infrastructure industry and steady ramp-up in the revenue and order book position. The rating also factors in extensive experience of the promoters in the industry and above average financial risk profile however, These rating strengths are partly offset by working capital intensive operations leading to higher reliance on external bank funding.

Hyderabad based United Infra Minerals Private Limited (UIMPL) was incorporated in 2011. The company promoted by Mr. Sharath Jayaram and Mr. M Vamsidhar is a subsidiary of United Global Corporation Limited (UGCL). UIMPL is engaged in manufacturing of alternative of sand such as manufactured sand (M-Sand), Plaster Sand (P-Sand), aggregates and fillers and also manufacturing of plaster, granular sub base, aggregates and fillers. The company markets these products under the brands Neosand, Neoplast, Neogsb, Neoaggregates and Neofillers.

About the group

United Global Corporation Limited:

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.

Sri Srinivasa Constructions India Private Limited:

Karnataka based, Sri Srinivasa Constructions India Private Limited (SSCIPL) was established in 1992 as a partnership firm by Mr. Y. Pitcheswara Rao and Mr. Y.V.S. Rama Krishna. In the year 2009, Sri Srinivasa Constructions India Private Limited (SSCIPL) was incorporated to take over the running operations of SSC. The company 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, Telangana and Chhattisgarh. SSCIPL is a registered Class 1 contractor for various departments including Public Work Departments (PWD), Panchayat Raj Engineering Department (PRED), Public Health Engineering Department (PHED) among others.

Analytical Approach

Acuité has consolidated business and financial risk profile of Sri Srinivasa Constructions India Private Limited (SSCIPL), United Global Corporation Limited (UGCL) and United Infra Minerals Private Limited (UIMPL) hereinafter referred as Srinivasa Group. The consolidation is mainly on account of similarity in the line of business, strong operational & financial synergies and common management. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**
  Srinivasa Group is primarily engaged in the field of government infrastructure projects and public civil construction for more than 2 decades and has a proven track record of executing projects in a reasonable time frame. The promoters, Mr. Y Pitcheshwar Rao and Mr. Y V S Ramakrishna have an experience of more than two decades in infrastructure industry. The group has executed projects for National Small Industries Corporation (NSIC), Public Works Department (PWD), Karnataka State Highway Development among others. All these departments, being a government entity, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liaisons and promoter's extensive experience, the group has managed to collect payments within 45-60 days from work certification. With the promoter's extensive industry experience and timely execution of projects, the group has been able to establish long-standing relationship with its clients.
  Acuité believes that Srinivasa group will continue to benefit over the medium term on the back of the extensive experience of the promoters and healthy relationship with customers.

- **Healthy order book position**
  The group registered operating income of Rs.544.09 crore in FY2019 as against Rs.404.39 crore in FY2018. Further during the period April to October 2019, the group has registered gross revenues of ~Rs.466.00 crore. Moreover, the group has a collective order book position of ~Rs.1872.00 crore as on 01 October 2019, which gives the healthy revenue visibility over the medium term.

- **Above average financial risk profile**
  The group's financial risk profile is above average, marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood healthy at Rs142.32 crore as on March 31, 2019. The net worth has grown gradually from Rs.89.20 crore as on March 31, 2017. The growth in net worth is fueled by infusion of unsecured loans from promoters of Rs.9.00 crore in as on 31 March 2018 coupled with healthy accretion to reserves.
  The company has followed conservative financial policy, reflected through its peak gearing and Total Outside Liabilities to Tangible networth (TOL/TNW) level of 1.17 times and 2.15 times as on March 31, 2017. The leverage level continues to remain low with gearing of 0.35 times and TOL/TNW of 1.15 times as on March 31, 2019. Acuité expects the debt levels to remain low on the back of limited capex requirement and conservative financial policy adopted by the company. The gearing is expected to be in the around 0.25 times over the medium term.
  Srinivasa group has moderate profitability margin in the range of 10-11 percent over the last three year ended FY2019. The moderate profitably levels vis-à-vis lower debt level has resulted in above average debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 3.75 and 1.66 times respectively for FY2019.
  Acuité expects the financial risk profile to remain above average over the medium term on account of healthy accretion to reserves, lower capex requirement and moderate profitability margins.

Weaknesses

- **Working capital intensive operations**
  Although on improving trend, the group's operations are moderately working capital intensive in nature as it operates in infrastructure industry. The working capital cycle has improved in FY2019 over previous year however; it continues to remain moderately intensive as reflected by its gross current assets (GCA) days of 115 days for FY2019 as compared to 184 days for FY2018. The contract are long term in nature, which results in high work in progress inventory of 62 days for FY2019. The receivables period has improved to 14 days, which has been brought down from 27 days for FY2018. Incremental working capital requirements with growth in scale of operations have resulted in high fund based bank limit utilisation levels. The average cash credit limit utilisation is high at ~87 percent during the last twelve months ended as on October 2019.
  Acuité expects the operations of the group to remain moderately working capital intensive over the medium term mainly on account of the high inventory days.

- **Competitive industry**
  The group is engaged as civil contractor. This particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of biding on contracts. However,

this risk is mitigated to an extent on account of extensive experience of the management.

Rating Sensitivities

- Timely execution of current order book without any cost over run.
- Stretch in the working capital cycle leading to GCA days beyond 200 days will impart negative bias to the rating.

Material Covenants

None

Liquidity Position: Adequate

Srinivasa group has adequate liquidity. The bank limits have been on an average 87 per cent utilized for the last twelve months ended October 2019. Cash accrual is expected at Rs.40.00-50.00 crore per annum in fiscals 2020-2022, against limited long-term debt obligations of ~Rs.4.15 crore per annum over the same period, thus provide higher cushion for working capital requirement. Current ratio stood comfortable at 1.92 times as on March 31, 2019. The company maintained lien-marked fixed deposits of Rs.45.98 crore as on March 31, 2019. With no major debt based capex plans going forward, liquidity likely to remain adequate to support its incremental working capital requirement.

Outlook: Stable

Acuité believes the group will maintain 'Stable' outlook over the medium term on account of established presence in the infrastructure sector and healthy order book position. The outlook may be revised to 'Positive' if there is significant and sustained improvement in its scale of operations while improving its operating profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or decline in profitability resulting in deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Crore.	544.09	404.39
PAT	Rs. Crore.	25.66	19.15
PAT Margin	(%)	4.72	4.74
Total Debt/Tangible Net Worth	Times	0.35	0.70
PBDIT/Interest	Times	3.75	3.39

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 Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation of companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Jun-2019	Cash credit	Long Term	7.50	ACUITE BBB+ (Indicative)
	Term Loans	Long Term	5.16	ACUITE BBB+ (Indicative)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Indicative)

04-Apr-2018	Cash credit	Long Term	7.50	ACUITE BBB+/Stable (Assigned)
	Term Loans	Long Term	5.16	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB+/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.17 (Reduced from Rs.5.16 crore)	ACUITE BBB+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ (Reaffirmed)
Proposed facilities	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE BBB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294053 bhanupriya.khandelwal@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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