

## Press Release

Utkarsh India Limited

November 15, 2018

Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 497.75 Cr.
<b>Long Term Rating</b>	ACUITE A-/Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A2+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs 497.75 crore bank facilities of Utkarsh India Limited (UIL). The outlook is "Stable".

Established in 1987 as Bansal Mechanical Works and later converted to a limited company in 1995- Utkarsh India Limited is a Kolkata based company promoted by Mr. Sunil Bansal. The company initially started with production of mild sheets and galvanized iron ERW pipes. Over the years, the company has diversified its product line and currently has product profile across seven verticals namely MS pipes, GI pipes, transmission and telecom towers, poles, crash barriers and PVC and high-density polyethylene (HDPE) pipes. The company has two manufacturing unit located in West Bengal with combined installed capacity is 3,06,680 MTPA.

### Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of UIL to arrive at the rating.

### Key Rating Drivers:

#### Experienced management and long track record of operations

Established in 1987 the company has a long track record of over two decades in steel processing and pipes industry. The long track record and the extensive experience have resulted in establishing UIL as a popular brand in the domestic market. The management over the years has diversified its product profile into different segments thereby improving its topline.

#### Comfortable financial risk profile

The comfortable financial risk profile of the company is marked by its healthy network, moderate capital structure and debt protection metrics. The network stood at Rs 150.21 crore as on 31st March, 2018 as compared to Rs 137.35 crs in the previous year. The debt to Equity Ratio of the company stood at 1.26 times on 31st March, 2018 as against 1.38 times as on 31st March, 2017. UIL reported a comfortable interest coverage ratio of 1.83 times in as on 31st March, 2018 as against 1.61 times as on 31st March, 2017 despite a rise in debt levels from Rs 224.74 cr as on 31st March, 2017 to Rs 244.97 cr as on 31st March, 2018. Net Cash accruals to Total Debt (NCA/TD) of 0.09 times in FY2018. DSCR is comfortable at 1.24 times in FY2018. Going forward, Acuité expects continuous improvement in the overall financial health of the company in the absence of any significant debt funded capex plan.

### **Significant growth in revenue**

The company has registered healthy revenue of Rs 833.78 crs in FY 18 as compared to Rs 562.81 crs in the previous year, thereby registering a healthy y-o-y growth rate of 48.15 percent. The significant growth in revenue is mainly on account of the increase in sales of transmission towers and crash barriers/W – Beam products. The improvement in sales of transmission towers is due to thrust on rural and railway electrification by Government of India. Further, during the current year, the company has clocked revenue of Rs 521 crs in H1FY19 (provisional) as compared to sales of Rs.336.18 crs in H1FY18 registering a growth of 55 percent.

### **Reputed clientele**

Over the years UIL has been able to establish its relationship with reputed clientele which comprises major EPC contractors like Kalpataru Power Transmission Ltd, Larsen & Toubro Limited, Tata Projects Limited, K. Ramachandra Rao Transmission & Project Private Limited, Alstom Systems India Private Limited, Sterling & Wilson Private Limited to name a few. UIL has presence in overseas markets for the GI ERW steel pipes & tubes. The company has presence in the markets of Germany, Belgium, UK, Lithuania, Poland, Northern Ireland, Australia, UAE, Qatar, Kuwait, Iraq, & Sri Lanka.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 182 days in FY2018 as compared to 232 days in FY2017. The high GCA days an inherent nature of the industry is due to the extended debtor days as the majority of customers are EPC players working for railway electrification and rural electrification. Payments are generally realized after 60 days of bill submission. Debtor days though has come down considerably from 100 days in FY 17 to 73 days in FY 18, the same is expected to remain high. The inventory days have been in the range of 100-125 days during the period of review (FY 2016- 2018). Since the company has a diversified product profile, the company has to maintain considerable amount of inventory both in terms of raw materials and finished goods. Further, the working capital intensity is reflected from the utilization of ~ 88 per cent of its fund based working capital limit during the 12 month ended September'18.

#### **Susceptibility of profitability to volatility in raw material prices**

The price of the key raw material, hot-rolled coils, which accounts for 80 percent of raw material cost, is volatile. Inability of the company to pass on the increased cost of raw materials has resulted in the dip in operating margins in FY 2018 which declined to 7.98 percent from 10.30 percent in FY 2017. However, the same has been managed in the contracts from FY19 onwards where the company has incorporated price escalation clause.

### **Outlook: Stable**

Acuite believes the outlook on UIL rated facilities will remain stable over the medium term backed by its experienced management and diversified product profile. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while improving its working capital cycle. The outlook may be revised to 'Negative' in case of the company fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates.

### **About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	833.78	562.81	510.38
EBITDA	Rs. Cr.	66.55	57.99	48.76
PAT	Rs. Cr.	12.96	7.80	6.42
EBITDA Margin	(%)	7.98	10.30	9.55
PAT Margin	(%)	1.55	1.39	1.26
ROCE	(%)	14.56	13.88	24.45
Total Debt/Tangible Net Worth	Times	1.26	1.38	1.32
PBDIT/Interest	Times	1.83	1.61	1.57
Total Debt/PBDIT	Times	3.26	3.56	3.76
Gross Current Assets (Days)	Days	182	232	226

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

**Note on complexity levels of the rated instrument**

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

**Rating History (Upto last three years)**

Not Applicable

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE A-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE A-/Stable (Assigned)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	5.25	ACUITE A-/Stable (Assigned)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE A2+ (Assigned)

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### About Acuité Ratings & Research:

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