

Press Release
Utkarsh India Limited
 November 28, 2019
Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 631.42 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to Rs 631.42 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 units located in West Bengal with combined installed capacity is 3,51,600 MTPA.

Analytical Approach:

Acuite 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**

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 of the promoters 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. Acuite believes that the promoter's vast experience will benefit the company going forward.

- **Significant growth in revenue**

The company has registered healthy revenue of Rs 1151.78 crs in FY 2019 as compared to Rs 833.78 crs in FY 18 in the previous year, thereby registering a healthy y-o-y growth rate of 38 percent. The significant growth in revenue is mainly on account of healthy volume growth in Poles and Electrical Towers segment meant for railways, transmission towers mainly for Reliance Jio Infocomm Limited and various state electricity boards. The improvement in sales of transmission towers is due to thrust on rural and railway electrification by Government of India. Moreover, the company has achieved revenues of Rs 492 crs till Sep, 2019 (provisional). Moreover, the company's order book stands at ~ Rs 358 Cr. as on 1st Nov, 2019, thus providing adequate revenue visibility over the medium term.

- **Established relationship with its customers**

Over the years, UIL has been able to establish healthy relationship with its reputed clientele which comprises telecom companies like Reliance Jio Infocomm Limited and major EPC contractors like Kalpataru Power Transmission Limited, 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. In fact, Reliance Jio Infocomm Limited was the major customer in FY19 contributing to around 38 per cent of total revenues. Moreover, 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. Acuite believes that the company's established long term relationship with its customers will aid in the steady growth in their scale of operations.

- **Comfortable financial risk profile**

The company's financial risk profile is comfortable marked by healthy net worth, comfortable gearing and debt protection metrics. The tangible net worth of the company improved to Rs 220.84 crore in FY2019 as compared to Rs 174.59 crore in the previous year due to accretion of profits. While arriving at the net worth, Acuite has considered Rs 47.74 crs of unsecured loan as quasi equity based since the same is subordinated to bank debt. The gearing stood comfortable at 0.83 times as on 31 March, 2019 as against 1.26 times as on 31 March 2018. The total debt of Rs. 184.05 crore consists of term loan of Rs. 51.24 crore and short term borrowings of Rs. 132.81 crore in FY2018. Moreover, the debt protection metrics is comfortable marked by interest coverage ratio (ICR) of 2.03 times in FY2019 as against 1.83 times in FY2018. Debt service coverage ratio (DSCR) stood at 1.29 times in FY2019 as against 1.24 times in FY2018. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.19 times in FY2019 as against 0.10 times in FY2018. Acuite believes the financial risk profile of the company to improve backed by steady accruals and in the absence of any significant debt funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 149 days in FY2019 as compared to 182 days in FY2018. 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 bills submission. Though the same has come down considerably from 100 days in FY17 to 62 days in FY19, the same is expected to remain high.

Further, the high GCA days are on account of inventory days of 85 days in FY2019 as against 103 days in FY2018. 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 inventory in the form of transmission towers have to be kept ready in advance which are supplied only after inspection by the concerned customers. Further, the working capital intensity is reflected by the utilization of ~ 80 per cent of its working capital limit during the 12 month ended September'19. Acuite believes that the company's ability to efficiently manage its working capital intensity will remain a key rating sensitivity.

- **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. Any volatility in availability and prices of hot-rolled coils in a competitive market will significantly affect the company's operating margin. However, the same has been mitigated to some extent as price escalation clause has been incorporated in contracts since FY18.

Rating Sensitivity

- Improvement in scale of operations
- Efficient working capital management
- Sustenance of profitability

Material Covenants

None

Liquidity Profile

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.34.51 crore in FY19 as against its maturing debt obligations of Rs.16.43 crore. Moreover, the management is regularly infusing funds in the form of unsecured loan to support the business. Promoters have infused Rs.23.36 crs in FY19 by way of unsecured loans. These unsecured loans stood at Rs. 47.74 crs as on 31st March 2019 as against Rs 24.38 crs in the previous year (treated as quasi equity). However, the company's operations are working capital intensive marked by gross current asset (GCA) of 149 days in FY2019 as against 182 days in FY2018. The current ratio stood at 1.23 times as on March 31, 2019 and the fund-based limit remains utilised at 80 percent over the twelve months ended Aug 2019. The company maintains unencumbered cash and bank balances of Rs.2.77 crore as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any debt funded capex.

Outlook: Stable

Acuite believes that the company's outlook 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 further stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1151.78	833.78	562.81
EBITDA	Rs. Cr.	91.77	66.55	57.99
PAT	Rs. Cr.	23.12	12.96	7.80
EBITDA Margin	(%)	7.97	7.98	10.30
PAT Margin	(%)	2.01	1.55	1.39
ROCE	(%)	19.88	14.56	13.88
Total Debt/Tangible Net Worth	Times	0.83	1.26	1.38
PBDIT/Interest	Times	2.03	1.83	1.61
Total Debt/PBDIT	Times	1.95	3.26	3.56
Gross Current Assets (Days)	Days	149	182	232

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

CRISIL, vide its press release dated March 28, 2019 had denoted the rating of Utkarsh India Limited as 'ISSUER NOT COOPERATING'; Migrated from 'CRISIL BBB+/Stable'; Rating Withdrawn'

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
* Annexure	Cash Credit	Long Term	175.00	ACUITE A-/Stable (Assigned)
	Term Loans	Long Term	42.50	ACUITE A-/Stable (Assigned)
	Proposed Term Loans	Long Term	5.25	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	150.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	125.00	ACUITE A2+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	240.00 (Enhanced from Rs. 175.00 cr)	ACUITE A-/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	36.42	ACUITE A-/Stable (Reaffirmed)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	200.00 (Enhanced from Rs. 150.00 cr)	ACUITE A2+ (Reaffirmed)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	150.00 (Enhanced from Rs. 125.00 cr)	ACUITE A2+ (Reaffirmed)
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About Acuite Ratings & Research:

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