

Press Release

Utkarsh India Limited

December 01, 2020



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 661.87 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 the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 661.87 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 the 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 3,60,600 MTPA.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of UIL to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

The company has a long track record of over three decades in steel processing and pipes industry. The key promoter, Mr. Sunil Bansal, possesses a vast experience of nearly around three decades in the industry. Currently, he and his son, Mr. Utkarsh Bansal are actively involved in the day to day operations of the company. 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, with presence in GI pipes, polyvinyl chloride (PVC) pipes, towers, poles, and crash barriers.

Acuite believes that its established market presence and the promoter's vast experience has enabled the company to build healthy relationships with customers and secures repeat orders.

• Healthy scale, despite decline in revenues

Though the revenues have declined, the company still operates at a healthy scale with a turnover of Rs 960.53 cr in FY 2020 as compared to revenues of Rs 1151.78 cr in FY 2019. The decline in revenues of around 16.60 per cent yoy is on account of lower volume growth in Electrical Towers segment meant for telecom and power companies in FY20 as compared to last year. Also, due to Covid-19 induced lockdown, sales in last week of March got highly impacted, which has added to the decline in overall revenues. Further, the company has price variation clause (PVC) in various contracts, which implies lower raw material cost will fetch lower realization.

Moreover, the company has achieved lower turnover of Rs. 380.11 crore till Sep, 2020 (provisional) as against Rs 492.00 cr till Sep, 2019 on account of disruption in the company's operations due to COVID lockdown. The COVID lockdown has accelerated the slowdown in Q1FY21 and is likely to significantly impact the overall revenues in FY21. However, the operations have picked up pace from Q2FY'21. Also, the company's order book stands moderate at ~ Rs 210 Cr. as on 25th Oct, 2020, which is expected to get executed in 3 months, thus providing adequate revenue visibility over the medium term.

Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term.

• **Comfortable financial risk profile**

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and debt protection metrics. The net worth of the company stood at Rs. 247.06 Cr. as on 31 March, 2020 as against Rs. 220.84 Cr. as on 31st March, 2019. While arriving at the net worth, Acuité has considered Rs 47.78 Cr. of unsecured loan as quasi equity based on the undertaking that the same is subordinated to bank facilities. The gearing (debt-equity) stood comfortable at 1.05 times in FY2020, though increased from 0.83 times in FY2019 on account of additional loan taken and higher utilization of working capital limit. The total debt of Rs. 259.00 Cr. as on March 31, 2020 consists of short term borrowings of Rs.184.60 Cr and long term borrowings of Rs.74.40 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood comfortable at 1.91 times and 1.36 times in FY2020 as compared to 2.03 times and 1.29 times in FY2019, respectively. The NCA/TD stood at 0.15 times in FY2020 as against 0.19 times in FY2019. Acuité believes that the financial risk profile of the company will remain comfortable in the absence of any major debt-funded capex plans in the medium term.

Weaknesses

• **Working capital intensive operations**

The company's working capital intensity is marked by high gross current asset days of 184 days in FY2020 as compared to 149 days in FY2019. The rise in GCA days is mainly on account of high inventory days of 117 days in FY2020 as against 85 days in FY2019 as due to lockdown, finished goods could not be dispatched in March end. Also, since the company has a diversified product profile, the company has to maintain a 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. Debtor days stood at 65 days for FY2020 against 62 days in FY19. Payments are generally realized after 60 days of bills submission. The working capital intensity also gets reflected from the utilization of ~ 90 per cent of its working capital limit during the 12 months ended in September'20. Acuité believes that the ability of the company to manage its working capital operations efficiently 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

- Ramp up in scale of operations while sustaining operating profitability
- Efficient working capital management
- Sustenance of liquidity profile

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.38.22 crore in FY2020 against long term debt obligations of Rs.15.62 crore over the same period. The current ratio stood at 1.31 times as on March 31, 2020. The company maintained unencumbered cash and bank balances of Rs.2.43 crore as on March 31, 2020. However, the company's operations are working capital intensive as marked by high gross current asset (GCA) days of 184 days in FY2020 as compared to 149 days in FY2019. The company has utilised ~ 90 per cent of its working capital limit during the twelve months ended September'20. The company had not availed moratorium during Mar 2020 to Aug 2020 and has been sanctioned COVID loan of Rs.20.61 crore. Going forward, Acuite believes that the company's liquidity to remain adequate in the absence of any major debt-funded capex over the medium term.

Outlook: Stable

Acuite believes that the outlook of the company 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 healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	960.53	1151.78
PAT	Rs. Cr.	26.11	23.13
PAT Margin	(%)	2.72	2.01
Total Debt/Tangible Net Worth	Times	1.05	0.83
PBDIT/Interest	Times	1.91	2.03

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
28-Nov-2019	Cash Credit	Long Term	240.00	ACUITE A-/Stable (Reaffirmed)
	Term Loans	Long Term	36.42	ACUITE A-/Stable (Reaffirmed)
	Proposed Term Loans	Long Term	5.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	200.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	150.00	ACUITE A2+ (Reaffirmed)
15-Nov-2018	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A-/Stable (Reaffirmed)
Term Loans	Nov,2019	10.75	May,2025	78.52	ACUITE A-/Stable (Reaffirmed)
Term Loans	July,2020	7.40	July,2023	6.70	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	145.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Assigned)
Proposed Non Fund based	Not Applicable	Not Applicable	Not Applicable	1.65	ACUITE A2+ (Assigned)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Priyanka Rath Analyst - Rating Operations Tel: 033-66201212 priyanka.rathi@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the

adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.