

Press Release

Urban Mass Transit Company Limited

September 11, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.5.00 crore proposed bank facilities of URBAN MASS TRANSIT COMPANY LIMITED (UMTCL). The outlook is '**Stable**'.

Incorporated in 1995, Urban Mass Transit Company Limited (UMTCL) is a consultancy company in the field of urban mobility. The company is a public-private venture with 51.01 per cent owned by the Government of India (Ministry of Housing & Urban Affairs) and the Government of Andhra Pradesh and 49.99 per cent owned by Infrastructure Leasing & Finance Services (IL&FS). UMTCL provides sustainable solutions for improving mobility through an integrated and multimodal approach encompassing the entire life cycle of the project, i.e. ideation, concept, planning and design, implementation and operation.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of UMTCL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management team**

UMTCL commenced its operations in the year 2008. The company has an operational track record of over a decade in urban mobility solutions with its directors having an experience of over three decades in the aforementioned line of business. The company caters to the requirements of Ministry of Urban Development (MOUD), Urban Local Bodies (ULB), multilateral and bilateral funding agencies amongst others. The long track record of operations and experience of management has helped the company to become one of the leading consultants in the transportation industry, catering to clients such as Delhi Metro Rail Corporation Limited, Surat Municipal Corporation, Pune Metro, ADB to name a few.

Acuité believes that UMTCL will sustain its existing business risk profile on back of established track record of operations and its experienced management.

- **Above average financial risk profile**

The financial risk profile of the company is above average marked by low gearing and moderate debt protection metrics. The net worth stood at Rs.22.97 crore as on 31 March, 2019 as against Rs.22.92 crore on 31 March, 2018. The gearing (debt-to-equity) ratio stood at 0.02 times in FY2019 as against 0.11 times in FY2018. Further, the interest coverage ratio stood at 10.44 times for FY2019 as compared to 11.81 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 0.28 times as on 31 March, 2019 as against 0.44 times as on 31 March, 2018.

Acuité believes that financial risk profile of the company is likely to remain above average over the medium term, on account of its presence in a niche segment, leading to a steady stream of revenues over the medium term.

Weaknesses

- **Low profitability margins**

The company reported moderate revenue growth marked by operating income of Rs.20.18 crore in FY2019. The operating margins are low in the range of 6.0-8.0 per cent on account of high employee cost. The operating margins, however, are expected to improve over the medium term on account of a higher proportion of employees being hired on contract basis as per the requirements of projects. Acuite expects the operating margins to improve gradually over the medium term on account of higher revenues leading to better absorption of fixed costs.

- **Restraint due to high shareholding of IL&FS**

UMTCL is in the process of raising funding from financial institutions for meeting its working capital requirements arising from the anticipated increase in scale of operations. The company has a 49.99 per cent shareholding of Infrastructure Leasing & Financial Services (IL&FS). The board of directors has two nominees from IL&FS. In light of the recent events pertaining to IL&FS, the likelihood of raising finance at competitive pricing to be impacted and will be a key rating sensitivity.

- **Working capital intensive nature of operations**

The company has working capital intensive nature of operations marked by gross current assets (GCA) of 437 days in FY2019 as compared to 565 days in FY2018. This is on account of debtors' collection period of 390 days in FY2019 as against 454 days in FY2018. The company caters to the requirements of Urban Local Bodies, State Governments and other government bodies where the receivable realization is delayed. The average cash credit utilization for the past six months stood at ~44 per cent.

Acuité believes that the working capital operations of the company will continue to remain intensive on account of its high receivable collection period.

Liquidity position

The company has stretched liquidity marked by modest net cash accruals against no significant term repayment obligations and high receivable realization period. The cash accruals of UMTCL are estimated to remain in the range of around Rs. 1.36 crore to Rs. 1.45 crore during 2020-22 against no repayment obligations. The company's working capital operations are intensive, marked by GCA of 437 days for FY2019. UMTCL maintained unencumbered cash and bank balances of Rs.1.04 crore as on 31 March, 2019. The current ratio stood at 3.92 times as on 31 March, 2019. Acuité believes that any further stretch in debtor cycle is likely to constrain the liquidity.

Outlook: Stable

Acuité believes that UMTCL will maintain a 'Stable' outlook over the medium term backed by its experienced management and their association with Government of India (Ministry of Urban Housing). The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company working capital cycle deteriorates, most likely as a result of deterioration in its debtor cycle or if the company is unable to secure funding lines to aid further growth in operations.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	20.18	19.12	22.77
EBITDA	Rs. Cr.	1.74	1.02	0.06
PAT	Rs. Cr.	0.61	0.77	0.39
EBITDA Margin	(%)	8.61	5.33	0.26
PAT Margin	(%)	3.05	4.02	1.69
ROCE	(%)	6.37	5.08	2.58
Total Debt/Tangible Net Worth	Times	0.02	0.11	-
PBDIT/Interest	Times	10.44	11.81	11.06
Total Debt/PBDIT	Times	0.26	1.97	-
Gross Current Assets (Days)	Days	437	565	417

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in service sector-<https://www.acuite.in/view-rating-criteria-8.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. Cr.)	Ratings/Outlook
Proposed Fund Based Facilities	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/ Stable (Assigned)
Proposed Non Fund Based Facilities	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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