

Press Release

Unique Structures & Towers Limited (USTL)

19 May, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 117.00 Cr.
Long Term Rating	ACUITE BBB-/Negative (Rating Reaffirmed, Outlook revised from 'Stable')
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.117.00 crore of bank facilities of Unique Structures & Towers Limited. The outlook is revised to '**Negative**' from '**Stable**'.

The revision in the outlook to 'Negative' is due to deterioration in the operating performance of the company vis-a-vis historical trends on account of market conditions impacted due to the global pandemic 'Covid-19' and is expected to remain subdued in the near term. Also, the liquidity position of the company has witnessed marginal deterioration due to lower than expected accruals and stretched receivables. The company has availed of moratorium on its bank limits till the end of May 2020 and has also applied for Covid emergency line of credit. The liquidity position post moratorium would be a key rating sensitivity factor.

Incorporated in 1985 by Mr. VK Bansal, the company started commercial operation from 1987 with a rerolling mill at Chhattisgarh catering to the different power grids. In 1995, the company started galvanized steel structure fabrication unit for transmission towers. The company has been regularly supplying galvanized steel structures and towers to Power Grid Corporation of India Limited (PGCIL), Indian Railway, Departments of Telecommunication (DoT) among others. USTL also ventured into EPC contract from 2006 and stop the rolled product division in 2014. Currently company is into Engineering, Procurement and Construction (EPC) for Power Grid Corporation India Ltd (PGCIL), Indian Railway and Department of Telecommunication (DoT) among others. Currently the company is managed by Mr. Rishi Kumar Bansal, Mrs. Sonika Bansal, Mrs. Rekha Bansal and Mr. Sree Gopal Kankani.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of USTL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

USTL, a Chhattisgarh based company was incorporated in 1985 by Mr. VK Bansal engaged in re-rolling activities. In 1995, company started fabrication of tower and galvanized unit. Currently company is managed by Mr. Rishi Kumar Bansal, who possesses more than a decade experience in fabrication of tower and EPC business. The other directors Mrs. Sonika Bansal, Mrs. Rekha Bansal and Mr. Sree Gopal Kankani also have more than a decade experience in the industry. The long standing experience of the promoters along with the long track record of operations has enabled the company to establish comfortable relationships with their key suppliers and reputed clients.

Moderate financial risk profile

The moderate financial risk profile of the company is marked by modest net worth, comfortable gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.32.42 crore in FY2019 as compared to Rs.30.03 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. Acuite has considered Rs.3.50 crore unsecured loan as quasi capital as the same amount is subordinated to the bank debt. The gearing of the company stood comfortable at 0.71 times as on March 31, 2019 when compared to 0.82 times as on March 31, 2018. The total debt of Rs.23.05 crore in FY2019 consists of short term loan of Rs.22.79 crore, unsecured loan from promoters of Rs.0.02 crore and long term debt of Rs.0.23 crore. Interest coverage ratio (ICR) is comfortable and stood at 1.59 times in FY2019 as

against 1.57 times in FY 2018. The debt service coverage ratio also stood comfortable at 1.44 times in FY2019 as against of 1.24 times in FY2018. The net cash accrual against total debt (NCA/TD) stood moderate at 0.14 times in FY 2019 as compared to 0.10 times in previous year. Acuite believes the financial risk profile of the company will be comfortable backed by adequate accruals and no major debt funded capex plan.

Healthy profitability margin

Though the operating profitability margin of the company has declined but still stood healthy at 11.55 per cent in FY2019 as compared to 13.59 per cent in previous year. Moreover, the operating profitability margin of the company has again declined to 9.72 per cent till 30th Nov 2019 (Prov.) due to increase in raw material price and job work expense during the period. The net profitability of the company also stood healthy at 2.97 per cent in F2019 as compared to 2.48 per cent in FY2018. However, the net profitability margin of the company is declined to 1.81 per cent till 30th Nov 2019 (Prov.).

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 328 days in FY2019 as compared to 418 days in FY2018. The inventory days are high at 139 days in FY2019 as compared to 145 days in FY2018. The debtor days are also stood high at 114 days in FY2019 and 171 days in FY2018 respectively. The company's operations are expected to remain working capital intensive, as the company is into EPC contracts, which leads to high work in progress inventory. The company is also into manufacturing of transmission tower and supplying to Power Grid Corporation India Ltd (PGCIL), Indian Railway and Department of Telecommunication (DoT) with longer payment terms that increases the collection period of the company.

Modest scale of operation

Though the company has started operation since 1985, the revenue of the company stood modest at Rs.80.46 crore in FY2019 as compared to Rs.60.74 crore in FY2018. The company has earned Rs.65.68 crore till 29th Feb 2020 (Prov.). However, this is partially offset by the healthy unexecuted order book of Rs.151.59 crore as on 31st March 2020. Acuite believes the ability of the company to scale up the operations will remain a key monitorable.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin.
- Working capital management
- Improvement in liquidity post moratorium period

Material Covenant

None

Liquidity Position: Stretched

The company has a slightly stretched liquidity marked by modest net cash accruals of Rs.3.26 crore as against Rs.0.23 crore of yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 2.02 crore to Rs. 2.58 crore during 2020-22 against Rs.0.71 crore repayment in FY2021 and Rs.0.89 crore in FY2022 respectively. The working capital intensity of the company is marked by gross current asset (GCA) days of 328 days in FY2019. The bank limit is 100 per cent utilized by the company for last six months ended 30th April 2020, and the company maintains unencumbered cash and bank balances of Rs. 0.12 crore as on March 31, 2019. Though the company has had few instances of LC devolvments between January and February 2020, they have been regularized within a timebound manner. The company has availed of a moratorium on their CC limits till May 31, 2020 and also applied for Covid 19 Emergency Credit Line from bank to the tune of Rs.1.60 crore which are to be repaid over a period of 2 years with a six months moratorium. Hence Acuite believes that this short-term funding will ease the liquidity position of the company. The liquidity position of the company post the moratorium would be a key credit monitorable.

Outlook: Negative

Acuite has revised the outlook to 'Negative' due to deterioration in their operating performance with dip in revenues and profitability expected for FY2020. The revision in outlook also reflects the moderation in the liquidity position of the company. The rating may be downgraded in case of any further deterioration in the liquidity or any further decline in turnover of the company leading to dip in the cash accruals. Conversely,

the outlook may be revised to 'Stable' in case of improvement in their liquidity profile and upward improvement in the turnover levels coupled with improved profitability margins.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	80.46	60.74
PAT	Rs. Cr.	2.39	1.51
PAT Margin	(%)	2.97	2.48
Total Debt/Tangible Net Worth	Times	0.71	0.82
PBDIT/Interest	Times	1.59	1.57

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>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
30-Jan-2020	Cash Credit	Long Term	11.00	ACUITE BBB-/Stable (Assigned)
	Standby Line of Credit	Short Term	2.25	ACUITE A3 (Assigned)
	Term Loan	Long Term	0.25	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	11.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit*	Short Term	2.25	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	44.00	ACUITE A3 (Assigned)
	Letter of Credit**	Short Term	2.25	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	44.00	ACUITE A3 (Assigned)

*Continuation of one way interchangeability from LC to BG limits of Rs.2.25 crore.

** Both way inter-changeability from LC to BG and Vice-Versa up to Rs.2.25 crore.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB-/Negative (Rating Reaffirmed; Outlook revised from 'Stable')
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB-/Negative (Rating Reaffirmed; Outlook revised from 'Stable')
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BBB-/Negative (Assigned)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.60	ACUITE A3 (Reaffirmed)
Letter of Credit**	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A3 (Reaffirmed)
Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE A3 (Assigned)

*Continuation of one way interchangeability from LC to BG limits of Rs.2.25 crore.

** Both way inter-changeability from LC to BG and Vice-Versa up to Rs.2.25 crore.

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