

Press Release

Ujwala Infratech (India) Private Limited

April 01, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB** (read as **ACUITE Double B**) on the Rs. 13.00 Cr bank facilities of Ujwala Infratech (India) Private Limited (UIPL). The outlook is '**Stable**'.

Incorporated in 2010, Ujwala Infratech (India) Private Limited (UIPL) is a Tirupati (Andhra Pradesh) based company; engaged in the business of civil construction and primarily undertakes drinking water supply works in Andhra Pradesh and Tamilnadu. The company is promoted by Mr. Suresh Kanumuri Babu, Mrs. Sreedevi Kanumuri, Mrs. Kanumuri Geethanjali, Mr. Varun Kanumuri. The company is registered as a class-I contractor with the public works departments of Andhra Pradesh and Tamilnadu.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced Management

UIPL's promoter Mr. Suresh Kanumuri Babu has long standing presence over 2 decades in the civil construction industry. UIPL is presently registered with PWD Govt. of Andhra Pradesh and Tamilnadu Government as class I contractor. Promoter's extensive industry experience and established track record has enabled UIPL in establishing long-standing relationship with its key suppliers and principals for repeated business. Acuité believes that UIPL's established track record and experienced management will continue to aid its business risk profile over the medium term.

• Moderate scale of operations and moderate order book

UIPL's revenue has improved from Rs.12.99 Cr in FY19 to Rs.21.99 Cr in FY20. The company has reported revenue of Rs.28 Cr till Jan 2021 and expects to achieve revenue upto ~Rs.45-50 Cr by the March 2021. The operating margin stood in the range of 13.69 to 18.96 percent over the last three years ending FY20. UIPL has unexecuted order book Rs.88 Cr as on January 31, 2021 to be executed in the next 12-18 months of time. The outstanding order book is 4x of the FY20 revenue. Acuité believes that movement of order book along with flow of new orders will be key monitorable over the medium term.

Weaknesses

• Moderate financial risk profile

UIPL financial risk profile is moderate, marked by moderate capital structure and debt protection metrics. UIPL has moderate net worth at Rs.7.86 Cr as on March 31, 2020 against Rs.6.95 Cr as on March 31, 2019. Moderate net worth and high fund-based debt resulted in moderate gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.01 times and 2.05 times respectively, as on March 31, 2020 vis-à-vis 2.15 times and 3.35 times March 31, 2019. Debt protection metrics is moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.83 times and 0.13 times, respectively, in FY2020 vis-à-vis 1.49 times and 0.05 times for FY2019. Its accruals are expected in the range of Rs. 1.50-2.50 Cr over the medium term, against

repayment obligations of Rs.1 Cr. Acuité believes that in absence of any major debt-funded capital expenditure; improving cash accruals will lead to moderate financial risk profile over the medium term.

• Working capital intensive operations

UIPL's working capital cycle is intensive with high gross current assets (GCA) days in the range of 290-657 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days (mostly work-in-progress) and high debtor days. UIPL had inventory and debtor days of 295 days and 3 days as on March 31, 2020. The GCA days includes the other current asset portion in the form of advances which further takes it to elongated levels. UIPL pays the raw material creditors within 9-15 days. Its bank lines are utilised at 44 percent over the past 6 months ending January 2021. Acuité believes that the working capital cycle is estimated to remain intensive over the medium term.

• Highly competitive and fragmented industry with tender-based nature of business

UIPL operates in highly competitive and fragmented industry with presence of several players and tender nature of business. UIPL is into mid-size projects, where in the competition is moderate vis-à-vis high or low value projects. The company is engaged as civil contractor majorly for drinking water supply projects. The sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. However, this risk is mitigated to an extent on account of extensive experience of the management. UIPL is also exposed to execution risk and its ability to complete the projects as per the scheduled timelines which is crucial to meet its contractual obligations and receive repeated orders in future. Acuité expects UIPL enjoys the operational advantage and timely completion of the projects leading to securing business from Govt. Dept. and corporates regularly.

Liquidity Position: Adequate

UIPL's liquidity is adequate, marked by adequate net cash accruals against its modest debt obligations, albeit constrained by working capital intensive operations. UIPL generated cash accruals of Rs.1.03 Cr in FY2020 against debt obligations of Rs.0.02 Cr for the same period. The cash accrual of the company is estimated in the range of around Rs.1.50 -2.50 Cr during FY2021-23 against repayment obligations of Rs.1.00 Cr to Rs.1.25 Cr for the same period. The average fund based working capital utilization stood low at 44 percent for the past 6 months ended January 2021. The current ratio stood comfortable at 1.55 times as on March 31, 2020. Acuité believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity.

Rating Sensitivities

- Sustained increase in order inflow, providing revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Outlook: Stable

Acuité believes that UIPL will continue to benefit over the medium term due to its experienced management and moderate order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case UIPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	21.22	12.99
PAT	Rs. Cr.	0.91	0.76
PAT Margin	(%)	4.31	5.83
Total Debt/Tangible Net Worth	Times	1.01	2.31
PBDIT/Interest	Times	1.83	1.49

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

None

Any other information

None

Material covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.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)

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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB/ Stable (Assigned)

*ILC/BG sublimit upto Rs.3 Cr

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About Acuité Ratings & Research:

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