

Press Release

Uralungal Labour Contract Cooperative Society Limited

April 09, 2021



Ratings Assigned

Total Bank Facilities Rated*	Rs. 1,182.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE BBB** (**read as ACUITE triple B**) and short term rating of '**ACUITE A2** (**read as ACUITE A two**) on the Rs. 1,182.00 Cr bank facilities of Uralungal Labour Contract Co-operative Society Limited (ULCCS). The outlook is '**Stable**'.

The rating reflects the established operations and the long track record of ULCCS in infrastructure development in Kerala, majority stake in the society held by Government of Kerala, along with the latter's support in the form of capital contribution, loans, subsidies etc. and its strong order book position. The above mentioned rating strengths are partly offset by ULCCS's challenging financial position, working capital intensive nature of operations and geographic concentration of projects.

ULCCS, was formed in a rural pocket in Malabar region in North Kerala. ULCCS was formed in 1925 by the disciples of eminent social reformer Sri Guru Vagbhananda in a village called Uralungal near Vatakara in Kozhikode District of Kerala. ULCCS undertakes civil construction work in Infrastructure development in Kerala and is one of the most preferred organizations for development of roads, bridges, buildings and allied infrastructure. Major clients of the Society include National Highways Department for Highway projects, Public Works Department of Govt. of Kerala (GoK) for State Road Development, Central Ministries such as Ministry of Panchayat Raj for rural roads under Pradhan Mantri Gram Sadak Yojana (PMGSY), several state government ministries such as Local Self Government, Co-operation, Tourism etc., and a host of reputed private enterprises. ULCCS has grown to be the biggest Labour Contract Society in the State, providing direct employment to more than 13,000 workers all over Kerala.

Analytical Approach:

Acuité has taken the standalone view of the business and financial risk profile of ULCCS to arrive at the rating. Acuité has also considered the support ULCCS receives from GoK in the form of capital contribution, loans subsidies etc. to arrive at the rating.

List of key rating drivers and their detailed description:

Strengths:

Long track record in civil construction with GoK as the major stakeholder

ULCCS was formed in 1925, undertakes civil construction work in Infrastructure development in Kerala and is involved in construction of roads, bridges, buildings and allied infrastructure. The major shareholder of the Society is Government of Kerala which owns 79.86 per cent of the issued shares and the rest are held by the members of the society. Major clients of the Society include National Highways Department for Highway projects, Public Works Department of Govt. of Kerala for State Road Development, Central Ministries such as Ministry of Panchayat Raj for rural roads under Pradhan Mantri Gram Sadak Yojana (PMGSY), several state government ministries such as Local Self Government, Co-operation, Tourism etc., and a host of reputed private enterprises.

Preferential status from the Government of Kerala

The Kerala government provides certain types of support and preferences to labour contract societies. This includes direct financial support as share capital contribution, loan or subsidy, concessions and preferences while awarding public works. Further, in cases when the lowest tender is from a Private Contractor, Labour Contract Co-operative Society will be awarded the work at up to 10 per cent above the lowest tender rates

and over and above this, cooperative societies will be exempted from payment of Security Deposit and Earnest Money Deposit. They also benefit from advance payment of up to 20per cent of the cost of work depending on the projects. This can be understood from the loans given by the Government directly and indirectly through Kerala State Cooperative Bank.

Strong Order Book position and favorable Bid Success Ratio

ULCCS as on 31 Jan 2021 had 1,309 projects worth Rs 7,171.72 Cr under its stable of which Rs 2,616.68 Cr was executed and Rs 4,555.04 Cr worth of work remaining and to be completed in 48 months providing stable revenue visibility for medium term. ULCCS bids for a wide variety of projects and has a bidding success ratio of 73 per cent (ULCCS won 166 bids in 9 months ended 31 Dec 2020 amounting to Rs 835.46 Cr). But majority of the projects have small ticket size (97 per cent of the projects in hand had tender value below Rs 25.00 Cr with average tender value of Rs 1.52 Cr amounting to Rs 1,934.57 Cr.) Government of Kerala has appointed ULCCS as one of the Accredited Agency in certain departments for execution of projects without tendering procedure. This include Finance Department, Local Self Government Department, Tourism Department, Labour Department, Co-operation Department and MLA works (For projects completed under discretionary spending of MLAs).

Strong operating performance

The company reported record revenue growth with a CAGR of 38 per cent achieving a revenue of Rs 1,136.72 Cr in FY20. Further, for 9M21, the Society had already booked revenue of Rs 784.71 Cr. The company also reported EBITDA margin in the range of 13.32 percent to 18.94 percent over past 3 years ending FY20. ULCCS is a cooperative society with works directly contracted to people who are responsible to execute the work, i.e. the labourers. However, the benefits accruing from this collective labour are largely divided among the worker members of the Society and therefore, the margins are low. PAT margins extremely thin in the range of 0.32 percent to 0.43 percent.

Access to funding from quasi government bodies and public

The Society received FD of Rs 552.43 Cr from Service Co-operative Bank as on FYE20 (Rs 729.87 Cr as at 9ME21 provisional). The society also had received short term deposits from general public (Rs 476.39 Cr at FYE20 and Rs 531.35 Cr at 9ME21 Provisional) as per the byelaws of the Co-operative Societies Department of Government of Kerala. ULCCS is, therefore, able to access funds at competitive rates in the form of fixed deposits from Service Co-operative banks and deposits from general public, which are usually lower than the bank borrowing rates.

Weaknesses

Challenging Financial Risk profile

ULCCS' financial position is considerably stretched as observed from leveraged capital structure and weak coverage indicators albeit the comfortable net worth of the Society which stood at Rs 346.25 Cr as on end 9ME21 (Provisional). The gearing was 5.85 times and EBITDA leverage was 9.84 times as on FYE20. (gearing was 6.54 times as on 31 Dec 2020) The DSCR was 0.21 times and interest coverage was 1.13 times in FY20. (DSCR and ICR for 9M21 are 0.33 times and 1.10 times respectively). The DSCR is low primarily due to the high portion of short term deposits collected by ULCCS from general public. As per discussions with the management, the interest accrued and 89per cent of the principle amount had been reinvested by the depositors in the past few years, further to this, the FDs have increased over time providing low cost funding for the operations. As a cooperative society, ULCCS distributes the profits to its member labourers in the form of bonuses every year and maintains minimal operating margins.

Working Capital intensive nature of operations

The operations of the society are highly working capital intensive as can be observed from the gross current asset days in the range of 539 to 742 days over the past three years ended FYE20. The elongation in working capital cycle is primarily as a result of delay in collection of receivables and high inventory. As on 31 Dec 2020, the society had 14.2 percent of receivables ageing between 90 and 120 days and 17.6 percent of the receivables ageing beyond 120 days. The society also maintains large amount of inventory primarily due to the high number of projects handled resulting in high working capital utilization. Inventory was particularly higher in FYE20, primarily due to COVID restrictions resulting in non-completion of work before year end and subsequent inability to raise bills for the same.

Volatile raw material prices and tender based nature of operations impacting profitability

Most EPC projects undertaken by the society has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand (the ones with tenure more than 1 year) have a built-in inflation index-linked price escalation clause,

depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

ULCCS operates in infrastructural construction industry, which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the company are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on profitability of the company where the bidding can get aggressive. However, the Society is accredited by many departments of Government of Kerala and many projects are allocated without tendering process. For 9M21, the firm received 180 such allocated projects with total project value of Rs 250 Cr.

Geographic concentration of projects

All of the projects executed by the company are based out of Kerala which is responsible for all the revenue in FY20 resulting in exposure to significant geographical and political risk.

Liquidity Position: Adequate

The liquidity position of the Society is stable as observed from the adequacy of cash accruals to repay the regular repayment of term loans, headroom available under the cash credit facilities, fund collected from general public and support from Kerala Government, in the form of loans from Kerala State Cooperative Banks. The Society over the past 6 months ended Jan 2021, had average cash credit utilization of 88.6 percent. Given the preferential treatment received by the Society from the Government of Kerala and the stability of the public deposits, the liquidity position of the firm is expected to stay adequate over medium term.

Rating Sensitivities:

- Improvement in financial risk profile
- Elongation in working capital cycle and delays in collecting receivables
- Any changes in the credit rating of Government of Kerala

Outlook: Stable

Acuité believes that ULCCS will maintain stable credit profile on account of its stable operating performance. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while improving the financial profile. Conversely, the outlook may be revised to 'Negative' in case of any further elongation of working capital cycle and delay in realization of bills from the government institutions.

About the Rated Entity Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1136.72	746.61
PAT	Rs. Cr.	3.66	3.23
PAT Margin	(%)	0.32	0.43
Total Debt/Tangible Net Worth	Times	5.85	5.02
PBDIT/Interest	Times	1.13	1.15

Status of non-cooperation with previous CRA:

Not Applicable

Material Covenant:

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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	650.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not	Not	Not	0.50	ACUITE BBB/Stable (Assigned)

	Applicable	Applicable	Applicable		
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.90	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	31.10	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB/Stable (Assigned)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	0.55	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A2 (Assigned)

Contacts

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