Press Release

UIC Udyog Limited

November 19, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITÉ BBB-/Stable (Assigned)
Short Term Rating	ACUITÉ A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned 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)** on the Rs 50.00 Cr bank facilities of UIC Udyog Limited(UIC). The outlook is **'Stable'**.

The rating derives comfort from the significant operational linkages with from Laser Power & Infra Private Limited (rated at Acuité A+/Stable/A1+) apart from the common management. The rating also factors an expected improvement in the financial risk profile and scale of operation of UIC over the medium term as new management has settled the external financial obligations and infused fresh funds both in form of debt and unsecured loans. The new promoters are likely to infuse additional funds in the near term to fund UIC's working capital requirement and ongoing capex plan. However, these strengths are partly offset by the weak operating margin of UIC and cyclical nature of the steel industry.

UIC was incorporated in 1995 by Kolkata based Jajodia family. The company is engaged in manufacturing of non-alloy steel wires. The company has two manufacturing units at Kalyani and Khanyan, West Bengal with an aggregate installed capacity of 85000 tonnes per annum for steel wire and 48000 tonnes per galvanizing line. In addition company also has 5 MW of windmill capacity in Maharashtra.

In FY19, UIC was referred to the National Company Law Tribunal (NCLT) for failure to meet its financial and statutory obligations. The company has been acquired subsequently by Laser Power & Infra Private Limited (LPIPL) and its associate concern from NCLT in June 2021 for a purchase consideration of around Rs 30.57 Cr.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of UIC and notched up the standalone rating by factoring in the operational linkage with LPIPL.

Key Rating Drivers

Strengths

Strong parentage

UIC has been acquired by LPIPL (rated at Acuité A+/Stable/A1+) with a 51 per cent stake and the balance is held by an investment arm of the group. LPIPL is an established player in the cable and conductor segment. The company also executes EPC projects related to power distribution. The current order book of LPIPL comprises of 70 percent of orders related to EPC segment and remaining 30 percent of orders related to manufacturing of cable and conductor. Moreover the company has strong financial flexibility as reflected from its robust financial risk profile and superior liquidity profile. LPIPL has provided shortfall undertaking to UIC's banker. The majority stake of LPIPL in UIC would be transferred to Mr. Deepak Goel (promoter of LPIPL) and family entirely by March'22.

Fresh Capital infusion

The current management has already infused Rs 8 Cr of share capital and quasi equity till September 2021 to fund the ongoing modernization capex pan and to meet their working capital requirement. The company will incur Rs 5 Cr of modernization capex in FY22 which will improve operational efficiencies of manufacturing units and reduce the overheads. This will help the company to improve its operating margins. The group will continue to infuse additional funds in UIC over the medium term.

Expected improvement in scale of operation

The scale of operation of the company had witnessed declining trend during last 3FYs because of low capacity utilization due to shortage of working capital. After acquisition from NCLT, the new management has infused fresh capital and funds in UIC to meet working capital requirement. Recently the company has availed Rs 20 Cr of fund based working capital limit to meet the rising working capital requirement.Hence the company is likely to witness strong revenue growth over the medium term backed by adequate amount of working capital and buoyancy in the steel industry.

Weaknesses

Weak financial profile risk

The financial risk profile of the company is marked by low net worth, high gearing and weak debt protection metrics. The net worth of the company stood negative Rs.44.24 Cr in FY2021 (Provisional) due to historical losses. Hence the gearing ratio also stood negative 5.03 times as on March 31, 2021(Provisional). Interest coverage ratio (ICR) stood negative 961 times in FY2021(Provisional) because of operating loss. The net cash accruals against total debt (NCA/TD) stood negative 0.03 times in FY2021 (Provisional). Acuité believes the financial risk profile of the company will improve over the medium term backed by fresh capital infusion along with improvement in profit margin due to fixed cost absorption.

Cyclical nature of the industry

The company performance remains vulnerable to cyclicality in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the company is exposed to fluctuations in the realization from finished goods.

Rating Sensitivity

- Healthy revenue growth with significant improvement in financial risk profile
- Improvement in liquidity profile

Material Covenant

None

Liquidity Profile: Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. In H1FY22, the current management has infused Rs 8 Cr of fresh funds which includes Rs 1 Cr of equity share capital and Rs 7 Cr of quasi equity.In addition, the net cash accrual is expected to improve in FY23 backed by rise in operating profit. Recently company has received sanction for Rs 20 Cr of fund based working capital limit and Rs 10 Cr of non fund based limit for its future working capital requirement. Acuité expects the liquidity position of the company will remain adequate over the medium term supported by its association with strong financial flexibility of the parent entity and improvement in cashflows.

Outlook: Stable

Acuité believes the outlook on company will remain 'Stable' over the medium term backed by strong promoter support. The outlook may be revised to 'Positive' in case of significant improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in liquidity profile or weakening of linkages with LPIPL.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	7.53	16.60
PAT	Rs. Cr.	-10.77	-4.76
PAT Margin	(%)	-143.03	-28.69
Total Debt/Tangible Net Worth	Times	-5.03	-3.14
PBDIT/Interest	Times	-961.59	-198.74

Status of Noncooperation from other CRA (Not 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 (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Indusind Bank	Working Capital Demand loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Assigned)
Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Assigned)
Indusind Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
Indusind Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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