

Press Release

UIC Udyog Limited

January 20, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	10.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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

rationale for the rating

The rating reaffirmation is on account of overall sound risk profile of the company marked by substantial increase in the turnover and absolute profitability levels thus translating into higher cash accruals, which is backed by the extensive experience of the management and strong promoter background and their consistent financial support. This apart, Acuite takes comfort from improvement in the adjusted gearing (adjusted for 10 year optionally convertible debentures, which have been treated as quasi equity). Moreover, UICUL's scale of operations are expected to remain adequately supported by the ramp-up in its production capacity in the last quarter of the year. The rating also considers the adequate liquidity position of the company, aided by adequate accruals. These strengths are however, partly constrained by the working capital intensity in the operations, volatility in operating margin and any economic slowdown.

About the Company

UIC Udyog Ltd (UIC) was incorporated in December 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 with an aggregate installed capacity of 60000 tonnes per annum for steel wire and 48000 tonnes per annum for galvanizing line. The company has a power purchase agreement with Maharashtra Electricity Distribution Company Ltd for its 5 MW of wind mill capacity.

The company was facing labour and working capital issue in 2017 which had impacted its overall financial performance. So the company was unable to meet financial & statutory obligations and the account turned into non-performance asset in 2018. In 2019, the company was admitted to NCLT. The company was acquired by Laser Power and Infra Pvt Ltd (rated at Acuite A+/Stable/A1+) and its key promoter, Mr. Deepak Goel in **June 2021**.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of UICUL to arrive at the rating. Acuité has taken into account a strong level of support from the Laser Power and Infra Private Limited (LPIPL) given that LPIPL has a significant stake in UICUL, and also factoring in the operational linkage with LPIPL.

Key Rating Drivers

Strengths

Strong Parentage; Operational and Strategic Support

LPIPL (rated at Acuité A+/Stable/A1+) acquired 51 per cent stake in UICUL in June 2021 and continues to be its parent. The balance is held by Mr. Deepak Goel, the key promoter and his family. LPIPL is an established player in the cable and conductor segment and is promoted by Purushottam Dass Goel and his son Mr. Deepak Goel. Acuité believes that the long track record and rich experience of the new promoters augur well for the relationship with their key suppliers and customers.

Acuité believes investment in UICUL continues to be a strategic investment for LPIPL in the form of backward integration. UICUL's strong strategic importance to LPIPL is also evident from fresh infusion of funds and capex incurred for overhauling of the existing plants. Acquisition of UICUL would aid in the supply of steel wires to LPIPL as 30-40 per cent steel wire requirement of LPIPL will be met by UIC in near future. Moreover LPIPL has strong financial flexibility as reflected from its robust financial risk profile and superior liquidity profile. LPIPL has also provided shortfall undertaking to UIC's banker.

Overhaul in overall capacity, improvement likely in FY23

The scale of operation of the company had witnessed improvement in FY22 marked by its revenues of Rs. 173.79 Cr in FY2022 as against only Rs. 7.53 Crs in FY2021. The scale of operation of the company had witnessed declining trend during last 3FYs till FY21 because of low capacity utilization due to shortage of working capital. After acquisition from NCLT, the new management has infused fresh capital and raised funds in UIC to meet working capital requirement. However, more than 78 percent of the total revenue is from the trading of food items in FY22, as the company availed of a short term opportunity of trading in pulses. Further, the company has achieved Rs. 67.27 Cr till September 2022 (Provisional). However, Acuité expects some moderation in the top line as the company is expected to maintain a revenue mix with a higher share of manufacturing business with modernization and upgradation of the existing plants and limited trading business in the current year. The company also generated profit and maintained healthy profitability margins in FY22, after incurring losses in the previous years. This recurring and mounting losses led to high working capital intensity because of the stretched receivables which further led to significant provisions and write-offs in FY22.

Healthy financial risk profile

In FY22 new management has settled entire previous financial obligation, improving the overall financial risk profile. The net worth of the company stood healthy at Rs. 130.57 Cr as on March 31, 2022. The net worth levels have seen significant improvement in FY22 on account of healthy profitability and infusion of funds in FY22 by way of 2 per cent optionally convertible debentures with a 10 year tenure. The gearing of the company stood comfortable below unity at 0.05 times as on 31st March 2022, with significant deleveraging policy of the current management. With higher retained earnings and net worth, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 0.22 times as on 31st March, 2022. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 69.98 times and Debt Service coverage ratio at 0.43 times as on 31st March, 2022, supported by turnaround in profitability and consistent reduction in debt levels. Net Cash Accruals/Total Debt (NCA/TD) stood high at 6.81 times as on 31st March, 2022. Acuité notes

that the company has incurred capex for modernization cum upgradation of the manufacturing units, improving the efficiency. Capex of ~Rs 6 Cr. is to be incurred in FY23 which is expected to be entirely funded by internal accruals. Hence, Acuité does not foresee any material impact on company's capital structure and debt metrics, in absence of any debt funded capex.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked high Gross Current Assets (GCA) of 276 days as on 31st March 2022. The high GCA days are mainly on account of high debtor period which stood at 190 days as on March 31, 2022, even though there is improvement in cash conversion cycle, with sales bill discounting backed by LC. Through LC-backed bill discounting, the bank offers UICUL immediate payment, and the customer continues to enjoy a longer credit period. However, the inventory holding stood moderate at 47 days as on 31st March 2022, as the company maintains inventory of 1-1.5 months. Acuité believes that any elongation in the receivable period or further inventory build-up may lead to a further strain on the working capital profile and, hence, will remain a key monitorable.

Operations exposed to cyclicity in the stainless-steel industry and competition in export markets

Indian stainless steel wire manufacturers and exporters face stiff competition from Chinese, Taiwanese and Korean exporters in key markets like the EU and the US. In addition, the company's performance remains vulnerable to cyclicity in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Owing to economies of scale, Chinese and Korean manufacturers dominate the markets in certain product segments, but Indian manufacturers enjoy a competitive advantage with their consistent compliance to quality specifications, higher quality and better after-sales services for specialised and high precision products.

Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.
- Further elongation of working capital cycle.

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. In FY22, the current management has infused Rs 1 Cr of equity share capital and raised funds in the form of optionally convertible debentures. In addition, the net cash accruals improved in FY22 backed by rise in operating profit and stood at Rs. 47.39 Cr. Consequently, the capitalisation and coverage indicators also improved due to higher accruals. The fund based limit remains moderately utilised at only ~24.11 per cent over the twelve months ended December, 2022. The current ratio stood strong at 4.61 times as on March 31, 2022. 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 cash flows owing to healthy profitability over the medium term.

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 the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's liquidity profile or weakening of linkages with LPIPL or further elongation of working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	173.79	7.53
PAT	Rs. Cr.	44.07	(9.24)
PAT Margin	(%)	25.36	(122.62)
Total Debt/Tangible Net Worth	Times	0.05	(1.94)
PBDIT/Interest	Times	69.98	(745.94)

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Nov 2021	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Working Capital Demand Loan	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	20.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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