Press Release
UMSL LIMITED
March 22, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	178.00	-	ACUITE A2 | Assigned
Total Outstanding Quantum (Rs. Cr)	273.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE BBB' (read as ACUITE t riple B)** and a short-term rating of '**ACUITE A2' (read as ACUITE A two)** on the Rs.273.00 Cr. bank facilities of UMSL Limited. The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors in the steady improvement in the company's scale of operations marked by an operating income of Rs.493.01 Cr. in FY2023 as against Rs.403.82 Cr. in FY2022. The rating also positively factors in the long track record of the company in the logistics and civil construction business, appointment of highly experienced professionals in the Board, leading to repeat orders, coupled with government thrust in the infrastructure segment. Additionally, the financial risk profile of the company remained healthy marked by low gearing (D/E: 0.21 times as on March 31, 2023) and adequate liquidity position as evident from sufficient cushion in the net cash accruals after meeting its debt obligations and moderate utilisation in the fund and non-fund based bank limits.

These strengths are partly offset by moderate order book position with unexecuted orders in hand of Rs.716.67 Cr. as on 1st January 2024, which will be executed in next 4-10 months, thus limiting the revenue visibility over the medium term. Further, the working capital intensive nature of operations of the company marked by high GCA days of 235 days in FY2023 on account of high debtor collection period which stood at 167 days in FY2023. However, Acuite notes that the elongated receivable cycle is due to preponderance on government clients and company usually awaits clearance of final bills for its completed projects. Acuite also considers the reputed client base consisting of government, semi-government agencies and a few private players, thereby reducing the counter party risk. The company also remains exposed to the geographical concentration risk as majority of its projects are concentrated in Odisha, though the company is diversifying in different states like Maharashtra, Chhattisgarh and Jharkhand. The rating also remains constrained by risk related to tender based nature of business, volatility in raw material prices and intense competition in the civil construction industry.

About the Company

Incorporated in 1991, UMSL Limited is engaged in infrastructure development like construction of road, highways, bridges, pipelines, etc with its geographical span extending to Odisha, Jharkhand, Chhattisgarh and Maharashtra. The company was initially involved in providing specialised logistics solutions to various companies, however, since 2012, the company diversified into infrastructure construction segment which has been contributing a large share of the revenues over the past few years. The company also provides logistics services, which contributes a miniscule percentage of the total revenue, majorly to its group companies.

Unsupported Rating
Not applicable.

Analytical Approach
Acuite has considered the standalone business and financial risk profile of UMSL to arrive at the rating.

Key Rating Drivers

Strengths
Long track record of operations and experienced management
The company has a long operational track record of around three decades in the road transportation of minerals and metal products and more than one decade of experience in executing EPC contracts like construction of road, bridges, buildings, canals, etc which contributed to around 86 per cent of the company's overall revenues in FY2023. It also caters to the logistics requirements of its Group company, Indian Metal & Ferro Alloys Limited (IMFA), which is India's largest fully integrated producer of ferro alloys. Further, the Whole time Director and Vice Chairperson, Ms. Paramita Panda has over 28 years of professional expertise and has served as Director on the Board of Indian Metals and Ferro Alloys Limited (IMFA). UMSL has hired renowned professionals from the industry in the recent years at various leadership positions across business verticals and project divisions, which augur well for the future growth prospects of the company.
Acuite believes that the long operational track record and highly experienced professionals on the Board shall support the business risk profile of the company to an extent.

Steady improvement in the scale of operations albeit moderation in profitability margins
The company witnessed a steady improvement in its scale of operations marked by an operating income of Rs.493.01 Cr. in FY2023 as against Rs.403.82 Cr in FY2022. It has achieved a revenue of Rs.261.99 Cr. in the H1FY24. However, UMSL has a moderate unexecuted order book position to the tune of Rs.716.67 Cr. as on 1st January 2024 which shall be executed in next 4-10 months, thus limiting the revenue visibility iover the medium term. The ability of the company to bag new orders and timely execution of the existing orders will remain a key rating monitorable.
The EBITDA margin of the company declined to 6.37 per cent in FY2023 as against 7.71 per cent in FY2022 owing to raw material price volatility. Further, the PAT margin moderated to 1.24 per cent in FY2023 as against 1.45 per cent in FY2022. However, the margins are expected to improve in the current year with EBITDA margin and PAT margin standing at 7.15 per cent and 1.61 per cent respectively in the H1FY23. Improvement of profitability margins shall remain a key rating sensitivity.

Healthy financial risk profile
The company's financial risk profile is healthy marked by healthy net worth base, low gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs.408.65 Cr. as on March 31, 2023 from Rs.362.02 Cr. as on March 31, 2022 aided by sizeable accretion to reserves. The gearing of the company stood comfortable below unity at 0.21 times as on March 31, 2023 as against 0.27 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.76 times as on March 31, 2023 as against 0.64 times as on March 31, 2022. Moreover, the moderate debt protection metrics is marked by Interest Coverage Ratio of 1.75 times as on March 31, 2023 as against 2.41 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.17 times as on March 31, 2023 as against 1.52 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times as on March 31, 2023 as against 0.14 times as on March 31, 2022.
Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The company has a working capital intensive nature of operations marked by increased GCA days of 235 days in FY2023 as against 230 days in FY2022 on account of increase in debtor collection period. The debtor's period increased to 167 days in FY2023 as against 142 days in FY2022 given the preponderance of the government clients. However, the inventory period stood comfortable at 13 days in FY2023 as compared to 6 days in FY2022. The company focuses on easy mobilisation of its resources, thereby improving the turnaround time and reducing the idleness of machinery and equipment. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from the stretched collection mechanism and efficient inventory levels over the medium term.
Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 168 days as on March 31, 2023 as against 100 days as on March 31, 2022. Sustained improvement in creditors will remain a key rating monitorable.

Moderate Order Book build-up

The company has a moderate order book position with unexecuted orders in hand of Rs.716.67 Cr. as on 1st January 2024, which will be executed in next 4-10 months, thus providing limited revenue visibility over the medium term. Moreover, the company has not received any new orders post December'22. The order book comprises of mainly construction of railway lines, bridges, piped water supply, buildings, roads, highways and irrigation projects awarded by State Government/ Central Government/ PSU Undertakings and Private establishments. The order book also comprises a very small portion (~2% of total order book) of transportation orders. The ability of the company to bag new orders and timely execution of existing projects will remian a key rating senstivity.

Susceptibility to tender-based operations

Revenue and profitability entirely depend on the ability of civil construction companies to win tenders. Also, intense competition among civil contractors prompts players to bid aggressively to bag contracts and thus, restricts the operating margin. Amidst cyclicality inherent in the construction industry, ability to maintain the margin through operating efficiency becomes critical.

Rating Sensitivities

- Improvement of the scale of operations along with significant improvement in the profitability margins.
- Further reduction of order inflow.
- Further elongation of working capital cycle

Liquidity Position

Adequate

The company has an adequate liquidity position marked by Net Cash Accruals of Rs.13.46 Cr. as on March 31, 2023 as against long term debt repayments of Rs.8.98 Cr. over the same period. The company is expected to generate sufficient net cash accruals to meet its debt obligation in the near to medium term. The current ratio stood moderate at 1.41 times as on March 31, 2023. The fund-based bank limit remained moderately utilised at 80.46 per cent and the non-fund based facility remained utilised at ~81.00 per cent for last six months ended January 2024. The cash and bank balance stood at Rs.43.48 Cr. as on March 31, 2023, out of which Rs.40.07 Cr. is the margin money deposit against the bank guarantees availed by the company. However, the working capital intensive management of the company is marked by Gross Current Assets (GCA) of 235 days as on 31st March 2023 as compared to 230 days as on 31st March 2022.
Acuité believes that the liquidity position of the company is likely to remain adequate backed by the steady accruals.

Outlook: Stable

Acuité believes that the outlook on UMSL will remain 'Stable' over the medium term on account of its long operational track record, strong relationship with reputed customers, experienced managemnt and comfortable order book position. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	493.01	403.82
PAT	Rs. Cr.	6.13	5.85
PAT Margin	(%)	1.24	1.45
Total Debt/Tangible Net Worth	Times	0.21	0.27
PBDIT/Interest	Times	1.75	2.41

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
• Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.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, Acuité 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 :
Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	63.00	ACUITE A2 | Assigned
IDBI Bank Ltd.	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A2 | Assigned
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A2 | Assigned
Indian Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	35.00	ACUITE A2 | Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB | Stable | Assigned
IDBI Bank Ltd.	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB | Stable | Assigned
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB | Stable | Assigned
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB | Stable | Assigned

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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.