

Press Release

United Engineering Industries Private Limited

December 07, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs.12.55 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB- / Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating from '**ACUITE BB-**' (read as **ACUITE double B minus**) to '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating from '**ACUITE A4+**' (read as **ACUITE A four plus**) to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.12.55 Crore bank facilities of United Engineering Industries Private Limited (UEIPL). The outlook is '**Stable**'.

The rating downgrade draws comfort from the established track record of operations of SRPL's promoters in the textile industry, reputed clientele, healthy financial risk profile and comfortable working capital management. The ratings, however, remain constrained by the intense competition, impact of Covid-19 on the company and significant concentration risk in its customer profile.

About the Company

Madhya Pradesh based UEIPL was incorporated in 2011 and is engaged in the heavy steel fabrication business. The company undertakes designing of heat exchangers, steel bridge girders among others for Indian railways and several power sector companies. It also offers installation and maintenance services and end-to-end solutions. The installed capacity is 12000 tonnes per annum.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of UEIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management, established track record of operations and reputed clientele**

UEIPL is led by Mr. J.V. John (Chairman), who has more than three decades of experience in heavy engineering and fabrication. The company has a presence of more than a decade in the industry. The promoters' experience has helped them to cater to repeated orders from railways. The company caters to Indian Railways and several power sector companies such as BHEL, NTPC, ABB India, Siemens, CG Power to name a few.

Acuite believes that the company's established track record of operations, experienced management and the long-standing relations with its customer and supplier base will continue to support its business risk profile over near to medium term.

Weaknesses

- **Below average financial risk profile**

UEIPL has below average financial risk profile marked by very modest tangible net worth, improving gearing and moderate debt protection metrics.

The net worth of the company stood at modest at Rs.5.29 Cr. as on March 31, 2020 (Provisional) as against Rs.4.92 crore as on March 31, 2019. The company follows a moderately aggressive financial policy as reflected in its Gearing (Debt to Equity) of 2.40 times as on March 31, 2020 (Provisional) as against 2.90 times as on March 31, 2019. This is however, expected to increase in FY2021 due to multiple long term loans availed by the company due to the impact of Covid-19. The debt profile majorly comprises of working capital

facilities, term loans and unsecured loans infused by the promoters. The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 3.46 times as on March 31, 2020 (Provisional) as against 4.44 times as on March 31, 2019.

The debt protection metrics have improved on Y-O-Y basis. The ICR (Interest Coverage Ratio) has improved to 1.71 times as on March 31, 2020 (Provisional) as against 1.54 times as on March 31, 2019. The DSCR (Debt Service Coverage Ratio) too has improved to 1.12 times as on March 31, 2020 (Provisional) as against 1.10 times as on March 31, 2019. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.09 times as on March 31, 2020 (Provisional) as against 0.07 times as on March 31, 2019.

While the debt protection metrics have improved on Y-O-Y basis, these are expected to deteriorate in the near term due to the impact of COVID-19 and additional long term debt availed by the company recently.

Acuite believes that the financial risk profile of the company is expected to deteriorate in the near to medium term due to the impact of Covid-19.

• Intensive working capital cycle

UEIPL has intensive working capital cycle marked by GCA (Gross Current Assets) of 278 days as on March 31, 2020 (Provisional) as against 375 days as on March 31, 2019. The improvement in GCA is driven by improvement in Inventory to 229 days as on March 31, 2020 (Provisional) as against 330 days as on March 31, 2019 and improvement in Debtors to 66 days as on March 31, 2020 (Provisional) as against 71 days as on March 31, 2019. The Creditors too have improved to 90 days as on March 31, 2020 (Provisional) as against 174 days as on March 31, 2019.

The current ratio, nonetheless, has deteriorated to 1.16 times as on March 31, 2020 (Provisional) as against 1.27 times as on March 31, 2019. The fund based working capital limits remain fully utilised with Temporary Overdrafts being availed by the company continuously for the working capital requirements for the 6 month period till Oct, 2020.

Acuite believes that the working capital cycle of UEIPL is expected to remain at intensive levels in the near to medium term and will remain key rating sensitivity factor.

Liquidity position: Stretched

UEIPL has stretched liquidity position marked by full utilisation of working capital facilities for the 6 month period till Oct, 2020. And the company's requirement to avail Temporary Overdrafts, WCDL and WCTL to meet its working capital requirements. This is primarily due to the impact of Covid-19. The company generated cash accruals of Rs.1.12 Cr. as on March 31, 2020 (Provisional) as against Rs.0.93 Cr. as on March 31, 2019 vis-à-vis its maturing debt obligations of Rs.0.65 Cr. in FY2020 (Provisional) and Rs.0.81 Cr. in FY2019. While the cash accruals of the company are expected to decline in FY2021 due to the impact of Covid-19, the same are expected to be back to normal from FY2022. The NCA/TD stood at 0.09 times as on March 31, 2020 (Provisional) and the company maintained unencumbered cash and bank balances of Rs.0.14 Cr. as on March 31, 2020 (Provisional).

Acuite believes the liquidity is expected to remain stretched in the near to medium, and the working capital management will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuite believes that UEIPL will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	22.19	19.56
PAT	Rs. Cr.	0.37	0.36
PAT Margin	(%)	1.67	1.82
Total Debt/Tangible Net Worth	Times	2.40	2.90
PBDIT/Interest	Times	1.71	1.54

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>
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-May-2019	Cash Credit	Long Term	8.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.75	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	2.80	ACUITE A4+ (Assigned)
31-Oct-2018	Cash Credit	Long Term	8.50	ACUITE B+ (Withdrawn)
	Proposed Long Term Loan	Long Term	1.50	ACUITE B+ (Withdrawn)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Withdrawn)
29-Aug-2017	Cash Credit	Long Term	8.50	ACUITE B+ / Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.50	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Assigned)

***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	11.65%	Not Applicable	8.00	ACUITE B+ / Stable (Downgraded)
Term Loan	May, 2015	12.10%	April, 2025	1.75	ACUITE B+ / Stable (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.80	ACUITE A4 (Downgraded)

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About Acuité Ratings & Research:

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