August 02, 2022

United Air Express: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA] BBB- (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-1*

ICRA has taken the consolidated view of United Infracore Limited and United Air Express, considering the strong operational, financial and managerial linkages between these two entities. Both these businesses are in similar line of business and managed by same management team.

Rationale

The rating assignment notes the Group's (United Infracore Limited and United Air Express) track record in the facility management industry of around eighteen years and its established relationships with a reputed clientele garnering repeat orders. The overall revenues for the Group have increased at a CAGR of 33% to Rs. 379.56 crore in FY2022 from Rs. 91.62 crore in FY2017. The revenue growth is expected to be sustained over the medium term, driven by a comfortable order book position of Rs. 1,082.14 crore as on March 31, 2022 (2.85 times FY2022 OI). The rating is, however, constrained by the moderate scale of operations in a competitive industry which restricts its pricing flexibility, and the high client concentration risk with Tata Steel Limited (TSL, rated [ICRA]A1+) along with other TSL Group entities contributing to 75%-85% of its revenues over the past few years. The client concentration risk is mitigated to an extent owing to an established relationship with the Tata Group and the Group's operations diversified across multiple plants of TSL.

ICRA notes that the Group has carried out sizeable capex of ~Rs. 250 crore over FY2019-FY2022, mainly towards acquisition of construction equipment and heavy machinery, the returns of which are expected to be garnered over the next five years. The debt availed to fund the capex, coupled with a modest net worth position, has resulted in leveraged capital structure and moderate coverage indicators (TOL/TNW at 4.25 times, TD/OPBDITA of >2.01 times and DSCR of 1.2 times in FY2022). ICRA notes that around Rs. 63.5 crore (22% of the overall debt as on March 31, 2022) was unsecured loan from promoters, out of which Rs. 60 core is expected to remain in the business and the interest on it will not be paid out to the promoter Group, as per the management. Excluding unsecured loan on which interest is also not expected to be paid off, the adjusted TOL/TNW stands at 3.44 times as on March 2022. While gross leverage remains high, it is expected to improve to below 2.25 times over the medium term on the back of accreditation to reserve and reduction in debt levels. The Group's working capital intensity remained high with NWC/OI at 30% in FY2022. ICRA notes that the company does not anticipate incurring any major debt-funded capex going forward, which coupled with expected improvement in the receivable cycle, is expected to improve the coverage metrics and liquidity; the same would be a key rating monitorable. The Group's operations also remain exposed to the volatility of profitability to changes in input costs, however, the presence of price escalation clauses in its contracts mitigates the risk to an extent. The company had investments of ~Rs. 15.0 crore as on March 31, 2022, in the equity market, which will be liquidated in the current fiscal to support the business growth and fund incremental working capital requirements. Any change in stance towards investment policy on its surplus cash or upstreaming of funds to the promoter Group will be a credit negative and remains a key monitorable. Given the company's growth plans and working capital-intensive operations, its ability to judiciously manage the working capital cycle also remains crucial from a credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is expected to sustain its revenue growth on the back of a comfortable order book, while maintaining an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Extensive track record of Group – The Group has expertise in the facility and plant management industry with an established track record of successful execution over the past 18 years, particularly in Jharkhand and Odisha.

Established relationships with reputed clientele – The Group enjoys an established relationship with the Tata Steel Group which has resulted in receipt of repeat orders. The company caters to multiple operations/service requirements of its clientele and its services remain vital for smooth running of the plant's operations.

Healthy revenue growth over the past 4 years; comfortable order book provides medium-term revenue visibility – The Group witnessed healthy revenue increase at a CAGR of 33% to Rs. 379.56 crore in FY2022e from Rs. 91.62 crore in FY2017, driven by healthy receipt of orders which is expected to sustain over the medium term. The Group's order book position remained strong at Rs. 1,082 crore as on March 31, 2022. The order book to operating income ratio is healthy at ~2.85 times, providing medium-term revenue visibility.

Credit challenges

Moderate scale of operations in competitive industry limits pricing flexibility – Despite the healthy revenue growth witnessed in the past few years, with revenues of Rs. 379.56 crore in FY2022, the Group remains a mid-sized player in the highly competitive facility management industry.

Financial profile characterised by high gearing, moderate coverage indicators and high working capital cycle – The Group has carried out sizeable capex of ~Rs. 250 crore over FY2019-FY2022, mainly towards acquisition of construction equipment and heavy machinery, the returns of which are expected to be garnered over the next five years. The debt availed to fund the capex, coupled with modest net worth position, has resulted in leveraged capital structure and moderate coverage indicators (TOL/TNW at 4.25 times, TD/TNW of >3 times, TD/OPBDITA of >2 times and DSCR of 1.2 times in FY2022). Excluding unsecured loan on which interest is also not expected to be paid off, the adjusted TOL/TNW stands at 3.44 times as on March 2022.The Group's working capital intensity remained high with NWC/OI at 30% in FY2022. ICRA notes that the company does not anticipate to incur any major debt-funded capex going forward, which coupled with expected improvement in the receivable cycle, is expected to improve the coverage metrics and liquidity; the same would be a key rating monitorable.

High client concentration – With 78-85% of its revenue derived from Tata Steel Limited and its Group entities, the united Group remains exposed to client concentration risks, although the long association and established relationship with Tata Group and the Group's operations diversified across multiple plants of TSL mitigates the risk to an extent.

Profitability susceptible to adverse changes in input costs – The Group's operations remain exposed to the volatility of profitability to changes in input costs, however, the presence of price escalation clauses in its contracts mitigate the risk to an extent.

Liquidity position: Adequate

The Group's liquidity is adequate, as the estimated accruals from operations are expected to remain sufficient to meet the repayment obligations. The liquidity is supported by free cash and liquid investments of ~Rs. 33 crore, availability of undrawn limits of Rs. 2.72 crore and limited outgo planned towards capex requirements.

Rating Sensitivities

Positive factors – ICRA could upgrade the rating if client diversification leads to substantial growth in revenues while sustaining margins at similar levels leading to an improvement in net worth and liquidity position. A specific credit metric for an upgrade is if DSCR is above 1.50 times, on a sustained basis.

Negative factors – Pressure on the rating could arise if there is decline in revenues and profitability resulting in lower-than-anticipated cash flows, on a sustained basis. Further, higher-than-envisaged debt-funded capex and/or stretch in the working capital cycle impacting the company's credit metrics or liquidity position could also be a trigger for a downgrade. A specific credit metric for a downgrade is if TOL/TNW is above 2.75 times, on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Consolidation and Rating Approach](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of United Infracore Limited and United Air Express considering the strong operational, financial and managerial linkages between these two entities. Both these businesses are in similar line of business and managed by the same management team. The list of companies considered for consolidation are given in Annexure – 2

About the Group

UAE and UIL provides facility management services dealing in mechanised housekeeping & plant services including slag processing, raw material handling, metal recovery from residue and equipment required for the above-mentioned activities mainly to steel and cement manufacturers. The operations are managed by the Sonthalia family who have an experience of more than two decades in the industry.

Key financial indicators (audited) - Consolidated

	FY2020	FY2021	FY2022*
Operating income (Rs. crore)	218.3	264.5	379.6
PAT (Rs. crore)	20.3	21.0	31.8
OPBDIT/OI	31.54%	29.21%	28.67%
PAT/OI	9.28%	7.94%	8.37%
Total outside liabilities/Tangible net worth (times)	4.33	5.15	4.25
Total debt/OPBDIT (times)	2.11	2.91	2.56
Interest coverage (times)	5.76	5.53	7.02

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, *-Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 02, 2022			
1	Issuer Rating	Long Term	-	-	**[ICRA] BBB- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	**[ICRA] BBB- (Stable)**

Source: *Company*

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
United Infracore Limited	100.00%	Full Consolidation
United Air Express	100.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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