March 20, 2024

Uneecops Technologies Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ CC	18.00	36.00	[ICRA]BBB; reaffirmed and assigned for enhanced amount; Outlook revised to Positive from Stable
Long-term Fund-based Term Loan	4.80	3.20	[ICRA]BBB; reaffirmed; Outlook revised to Positive from Stable
Short-term Non-fund Based	30.40	45.00	[ICRA]A3+; reaffirmed and assigned for enhanced amount
Long-term/Short-term – Unallocated	-	4.00	[ICRA]BBB (Positive)/ [ICRA]A3+; assigned
Total	**53.20**	**88.20**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook for Uneecops Technologies Limited (UTL) reflects ICRA's expectation that the company will report a healthy revenue growth and internal accruals generation over the near to medium term, while maintaining a comfortable capital structure and an adequate liquidity position. In FY2023, its revenues grew by 91% to Rs. 389 crore supported by steady execution of its order book. The growth momentum is expected to sustain in FY2024 as well given the strong order book and deal pipeline of ~Rs. 810 crore as of December 2023, and execution of much of these orders in the current fiscal. In 11M FY2024, the company's top line stood at ~Rs. 346 crore.

Revenue growth in the past few years was supported by healthy orders from various Government entities, especially in the education sector to set up virtual classrooms or to execute projects under the foundational literacy and numeracy (FLN) programme of the Government of India (GoI) in various states. Moreover, increased accrual generation has continued to result in a comfortable capital structure and coverage metrics for the company. Additionally, the ratings continue to factor in UTL's established track record and extensive experience of its promoters in the IT infrastructure industry, especially in the Government education sector, along with low counterparty risk as most customers are public sector entities.

The ratings are, however, constrained by UTL's high working capital intensity owing to relatively high debtor days and its moderate scale of operations, resulting in limited economies of scale. Coupled with limited pricing flexibility from the high competitive intensity in the industry and the limited value-added nature of its operations, these have continued to result in moderate profit margins for the company. Moreover, timely execution and the ability to sustain its fresh order inflow would remain critical for maintaining its profitability levels. Also, while the company executes projects pan India, a large part of these orders is from the state of Bihar, thus exposing it to geographic concentration risk.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of promoters in industry — UTL was incorporated in 1995 by its promoter, Mr. Peeyush Jain, who has an extensive experience in the industry. Further, the company has an established operational track record of over two decades in providing IT/electronic hardware and maintenance services, primarily to various Government entities, especially in the education sector. Also, it is involved in the installation and commissioning of solar power systems for public sector entities. The company also generates revenue from licencing ESRI software, and development and maintenance of websites for various Public Sector Undertakings (PSUs) and Government bodies.

Low counterparty risk as most customers are public sector entities – The company faces low counterparty risks with most customers being public sector entities like Odisha Computer Application Centre, Bihar Education Project Council, Axom Sarbha Shiksha Abhiyan Mission, Telecommunications Consultants India Limited (TCIL), Delhi Police, National Informatics Centre Service Inc. (NICSI), etc.

Comfortable capital structure and coverage indicators – UTL's financial profile is comfortable supported by the steady growth in its top line and internal accruals along with its comfortable capital structure and coverage metrices. With relatively low debt levels, UTL had a gearing of 0.3 times as on March 31, 2023, and healthy debt protection metrics with interest coverage of 14.1 times and total Debt/OPBITDA of 0.8 time for FY2023. With expected steady accrual generation and absence of any debt-funded capex over the near to medium term, its capital structure and debt protection metrics are expected to remain comfortable, going forward.

Healthy revenue growth in recent years; momentum expected to sustain aided by sizeable order book position — UTL has posted healthy revenue growth in FY2023 supported by steady execution of its order book. The growth momentum is expected to continue in FY2024 as well, with the company posting revenue of Rs. 346 crore in 11M FY2024. Further, it has a healthy outstanding order book of Rs.810 crore (as on December 31, 2023), which is expected to support revenue growth over the near term.

Credit challenges

High competitive intensity in the industry – Operating primarily in the Indian IT hardware industry, the company faces intense competition from established domestic as well as international players. As the tenders are mainly awarded on the basis of competitive pricing, UTL's profitability stands exposed to intense competition from other companies in the domestic market. The intense competition exerts pricing pressures and limits its bargaining power to an extent. However, the company benefits to an extent from its established operational track record of servicing public sector clients.

Moderate profit margins given the limited value-added nature of operations – UTL's profit margins have remained moderate in the range of 5.6-7.2% levels due to the competitive pressure and the limited value-added nature of its operations. Moreover, with most of its orders being fixed-price in nature, it is unable to pass on the rise in prices to its end-customers. UTL's ability to maintain healthy order inflow and their timely execution would remain key for sustenance of margins, going forward.

High working capital intensity – Usually, UTL's working capital intensity remains high at about 20-21% owing to high debtors' days with a predominant share of receivables from Government entities, resulting in the increased working capital requirement.

Concentration of order book on a single state—While UTL's operations are spread pan India, ~35-40% of its current order book includes projects from Bihar, thus exposing it to concentration risk. Nonetheless, its established operational track record of over two decades of servicing government entities across multiple states (including Bihar) mitigates this risk to some extent.

Liquidity position: Adequate

UTL's liquidity profile is adequate supported by improved internal accruals, free cash and bank balances of ~Rs. 18 crore along with buffer in its working capital limits of ~Rs. 23 crore as of mid-February 2024. Further, the absence of any major debt repayment obligations and capex plans in the near term support the company's liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade UTL's ratings if there is a continuous growth in its scale and internal accruals without any material stretching of the working capital cycle, while maintaining adequate liquidity on a sustained basis.

Negative factors – Negative pressure on UTL's rating could arise if there is a considerable decline in revenues and profitability on a consistent basis. Deterioration in the working capital cycle impacting the company's liquidity position could also trigger a rating downgrade. Specific credit metrics that could lead to a rating downgrade include interest coverage below 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financial statements.

About the company

Incorporated in 1996, UTL is a CMMi level 5 company that offers various IT-related products and services to Government bodies, especially in the education sector. The company is also involved in the installation and commissioning of solar power systems for various PSUs; providing website/application development services to various Government entities as well. The company also offers business automation and analytics solutions, ERP software, web and mobile development, content management system, and enterprise mobility, as well as testing services.

Key financial indicators (audited)

UTL Standalone	FY2022	FY2023
Operating income	203.9	389.3
PAT	10.1	17.8
OPBDIT/OI	5.6%	7.2%
PAT/OI	5.0%	4.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	1.9	0.8
Interest coverage (times)	5.8	14.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Mar 20, 2024	Jan 23, 2023	Mar 04, 2022	Feb 23, 2021	Jun 30, 2020
1	**Cash Credit**	Long-term	36.00	-	**[ICRA]BBB(Positive)**	[ICRA]BBB(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)
2	**Term Loans**	Long-term	3.2	3.2	**[ICRA]BBB(Positive)**	[ICRA]BBB(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	-
3	**Non-Fund Based**	Short-term	45.00	-	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	**Unallocated**	Long-term & Short-term	4.00	-	**[ICRA]BBB (Positive)/[ICRA]A3+**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Cash Credit	Simple
Long-term - Term Loans	Simple
Short-term - Non-Fund Based	Very Simple
Long-term/ Short -term – Unallocated	Not Applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	36.00	[ICRA]BBB(Positive)
NA	**Term Loans**	FY2021	8.50-9.50%	FY2025	3.2	[ICRA]BBB(Positive)
NA	**Non-fund Based**	NA	NA	NA	45.00	[ICRA]A3+
NA	**Unallocated**	NA	NA	NA	4.00	[ICRA]BBB (Positive)/ [ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 02261143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Rashmi Gole
+91 020 66069917
rashmi.gole@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches