June 21, 2024

United Office Systems Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Cash credit	23.00	23.00	[ICRA]BBB+ (Stable); reaffirmed; outlook revised to Stable from Positive
Long-term - Fund-based - Term loan	0.18	0.18	[ICRA]BBB+ (Stable); reaffirmed; outlook revised to Stable from Positive
Long-term - Fund-based - Term loan	45.00	45.00	[ICRA]BBB+ (Stable); reaffirmed; outlook revised to Stable from Positive
Short-term - Non-fund based - BG/LC	6.00	6.00	[ICRA]A2; reaffirmed
Short-term – Fund-based - Post shipment facility	2.00	2.00	[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated	4.92	4.92	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed; outlook revised to Stable from Positive
Total	**81.10**	**81.10**	

**Instrument details are provided in Annexure-I*

Rationale

While assigning the ratings, ICRA has considered the consolidated financials of United Office Systems Private Limited (UOSPL), United Acoustic Private Limited (UAPL) and United Access Floors Private Limited (UAFPL), given the common management, strong business and financial linkages, collectively referred as the United Group (Group).

The revision in outlook on the long-term rating to Stable from Positive factors in the United Group's increase in indebtedness for funding the ongoing capex, reduction in net worth and moderation in liquidity. The Group's overall capex for the FY2023-FY2025 period has doubled to Rs. 170 crore on account of addition of auxiliary machinery for the calcium sulphate plant, and Rs. 45-crore facility for manufacturing acoustic panels, which is estimated to be funded by debt of Rs.85-90 crore. The total debt is expected to increase to Rs. 92.1 crore as on March 2025 from Rs. 12.8 crore as on March 2023. The calcium sulphate plant, which was likely to be operational by Q2 FY2024 has been postponed by around 12 months due to delay in supply of machinery and expansion in scope of work. With no incremental revenues from the calcium sulphate plant and deferment of some of the expected orders, the Group's revenues declined by 6% in FY2024. ICRA notes the moderation in its liquidity following the exit of one of the promoter families through share buyback. The total outflow towards share buyback is estimated at ~Rs. 87 crore, to be funded by the company's cash flow from operations (CFO) and available liquidity. Of this, Rs. 60 crore was incurred in FY2024 resulting in reduction in cash and liquid balances to Rs. 28.6 crore as of March 2024 from Rs. 64.7 crore as of March 2023. The remaining Rs. 27 crore is expected to be incurred in H1 FY2025 from the available cash balances and CFO, thereby resulting in further moderation in liquidity.

The ratings continue to favourably factor in the extensive experience of the Group's promoters in the raised access floor business, the operational synergies from its Group concern, UAFPL, for the marketing and distribution of products and its reputed customer base. The Group's customer profile is well diversified comprising reputed large corporates, which limits the counterparty credit risk to some extent. ICRA expects the Group to report a healthy revenue growth of ~13-15% in FY2025 (PY: Rs. 300.0 crore), supported by steady demand for raised access flooring systems, along with commencement of new capacities for calcium sulphate and acoustic panels during the year. The Group's consolidated operating profit margins are estimated to remain healthy at ~22-24% in FY2025, backed by stable input prices. Despite the increase in debt levels for the ongoing capex, the Group’s leverage and debt coverage metrics are likely to remain comfortable with total debt/OPBIDTA of 1.2-1.3 times, interest coverage above 10 times and DSCR of 3.5-4.0 times in FY2025, driven by healthy profitability.

The ratings, however, remain constrained by UOSPL’s moderate scale of operations, despite the expected improvement in revenues in FY2025. The new capacities for calcium sulphate and acoustic panels are likely to become operational by Q2 FY2025, and ramp-up of operations of these new units, while maintaining healthy operating profit margins, would be critical from the credit perspective. The ratings are also constrained by the working capital-intensive nature of the business due to the high inventory and receivables, and the vulnerability of its profit margins to raw material prices, given the fixed-price nature of its contracts. Nonetheless, the inclusion of escalation clauses for some of the high-value orders mitigates the raw material price fluctuation risk to an extent.

The Stable outlook reflects the expected improvement in UOSPL’s revenues and operating profits, while maintaining comfortable capital structure and healthy debt coverage metrics.

Key rating drivers and their description

Credit strengths

Comfortable debt protection metrics – The Group’s leverage remained low with gearing of 0.3 times as of March 2024 and coverage metrics remained comfortable with DSCR of 22.9 times, interest coverage of 36.9 times and total debt/OPBIDTA of 0.8 times for FY2024, aided by low debt levels and healthy operating profitability. Despite the increase in debt levels for the ongoing capex, the Group’s leverage and debt coverage metrics are likely to remain comfortable with total debt/OPBIDTA of 1.2-1.3 times, interest coverage above 10 times and DSCR of 3.5-4.0 times in FY2025, driven by healthy profitability.

Established relationship with reputed clients – The Group has a reputed and diversified customer profile across India, comprising large corporates from the IT industry, financial and banking sector and data centres with a track record of repeat orders from most of its customers and YoY addition to its client base. UOSPL's client base is well-diversified with the top five clients driving ~27% of the total sales in FY2024 (23% in FY2023).

Experience of promoters in raised access flooring business; synergies from Group companies involved in civil services – The United Group is promoted by the Rajkotwala family, who has over two decades of experience in the raised access flooring industry. The company has another Group concern, UAFPL, which markets, distributes and installs access flooring systems in India.

Credit challenges

Modest scale of operations; higher-than-expected ongoing debt-funded capex – The Group operates in a niche segment of raised access flooring system. Despite the expected improvement in revenues in FY2025, the Group’s scale of operations continues to be moderate. The Group’s overall capex for the FY2023-FY2025 period has doubled to Rs. 170 crore on account of addition of auxiliary machinery for the calcium sulphate plant, and Rs. 45-crore facility for manufacturing acoustic panels, which is estimated to be funded by debt of Rs.85-90 crore. The total debt is expected to increase to Rs. 92.1 crore as on March 2025 from Rs. 12.8 crore as on March 2023. The new capacities for calcium sulphate and acoustic panels are expected to become operational by Q2 FY2025. Ramp-up of operations of these new units, while maintaining healthy operating profit margins, would be critical from the credit perspective.

Working capital-intensive nature of operations – The Group’s working capital intensity of operations remained high during the past owing to elongated receivables and high inventory level. While the NWC/OI stood significantly high at 58% in FY2021, the same moderated to 25% in FY2024 due to faster collection of receivables and reduction in inventory levels. Notwithstanding this moderation, the NWC/OI continues to remain high at absolute level and is expected to be in the range of 25-30% over the medium term.

Vulnerability of profitability to fluctuations in raw material prices – The key raw materials include galvanised iron sheets, special grade steel, calcium sulphate core and cement, the prices of which are volatile in nature and fluctuate in relation to international prices. The orders received by the company are generally fixed price in nature with inclusion of price escalation clauses for some of the high-value orders. Further, the procurement is usually not order-backed, exposing the operations to raw material price fluctuations. The company's operating profit margins (OPM) were impacted significantly in FY2021 and FY2022 on account of the sharp increase in raw material prices, which could not be passed due to fixed-price nature of contracts and lower absorption of fixed costs due to decline in revenues. While the OPM recovered over the last two fiscals due to moderation in input costs, the same remain exposed to any adverse movements in prices of key raw materials.

Liquidity position: Adequate

ICRA expects the Group's liquidity position to remain adequate with moderate utilisation of working capital limits (average utilisation of 20% during June 2023 – May 2024 period), translating to an average cushion of around Rs. 15 crore. Further, the Group has limited long-term debt service obligations of Rs. 9.7 crore in FY2025, which are expected to be comfortably met from its cash flow from operations. The company has capex plans of Rs. 70-75 crore in FY2025, which is likely to be funded by a debt of Rs. 40 – 45 crore and internal accruals. As of May 2024, the Group had free cash and cash equivalents of Rs. 23.5 crore majorly in the form of FDs, part of which are anticipated to be utilised for buyback of the exiting promoter's stake in H1 FY2025.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the United Group's revenues and earnings on a sustained basis, along with ramp-up in operations of the new capacities. An improvement in the working capital cycle and liquidity while maintaining strong capitalisation and debt coverage metrics will also support a rating upgrade.

Negative factors – Any significant deterioration in the United Group's revenues and profitability or a stretch in the working capital cycle (or) dividend/ large outflow that weakens the liquidity position may put pressure on the ratings. Any substantial increase in indebtedness deteriorating the capital structure and debt coverage metrics could put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of United Office Systems Private Limited, United Acoustic Private Limited (WOS of UOSPL) and its Group concern United Access Floors Private Limited, considering the common management and strong operational as well as financial linkages

About the company

UOSPL, a division of the United Group of Companies, was established as a private limited company on March 21, 2011. It manufactures false flooring panels and accessories used in the service-based industries, such as IT/ITeS, BPO, data centres and banking and financial services, among others. Raised access flooring is a platform built several inches above the structural flooring. It forms a void between the floor and the top surface of the raised access flooring system. The void stores plumbing pipes, air conditioning piping, power, electrical and data cables. It is a modular system, where panels can be easily uncovered for organisational and technical changes. The company's registered office is in Mumbai, and its manufacturing facility is at Umbergaon, Gujarat. It is an ISO 9001, 14001 and 18001-accredited company and an active member of the Indian Green Building Council (IGBC). The company is promoted by Mr. Shabbir Rajkotwala, who have an experience of over 20 years in this business.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	305.6	299.8
PAT	53.2	53.8
OPBDIT/OI	24.1%	24.0%
PAT/OI	17.4%	17.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.5
Total debt/OPBDIT (times)	0.2	0.8
Interest coverage (times)	102.0	36.9

*Source: Company, ICRA Research; * Provisional financials ; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
UAPL is yet to commence operations as it is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 21, 2024	-	Mar 30, 2023	Dec 30, 2021
1	Cash credit	Long-term	23.00	13.2	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Term loan – 1	Long-term	0.18	0.0	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Term loan – 2	Long-term	45.00	40.3	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Positive)	-
4	BG/LC	Short-term	6.00	4.5	**[ICRA]A2**	-	[ICRA]A2	[ICRA]A2
5	Post shipment facility	Short-term	2.00	0.0	**[ICRA]A2**	-	[ICRA]A2	-
6	Unallocated	Long-term/ Short-term	4.92	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2
7	Fund-based	Short-term	-	-	-	-	-	[ICRA]A2
8	Bank guarantees	Short-term	-	-	-	-	-	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based - Cash credit	Simple
Long-term Fund-based - Term loan	Simple
Short-term Non-fund based- BG/LC	Very Simple
Short-term Fund-based - Post Shipment facility	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	-	-	-	23.00	[ICRA]BBB+ (Stable)
NA	Term loan – 1	Dec-2017/ FY2018	8.8%	Sep 2023/ FY2024*	0.18*	[ICRA]BBB+ (Stable)
NA	Term loan – 2	May-2022/ FY2023	8.8%	Dec-2027/ FY2028	45.00	[ICRA]BBB+ (Stable)
NA	BG/LC	-	-	-	6.00	[ICRA]A2
NA	Post shipment facility	-	-	-	2.00	[ICRA]A2
NA	Unallocated	-	-	-	4.92	[ICRA]BBB+ (Stable)/ [ICRA]A2

*Source: Company *o/s is Nil as of March 2024*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	UOSPL Ownership	Consolidation Approach
United Access Floors Private Limited	-	Full Consolidation
United Acoustic Private Limited	100%	Full Consolidation

Source: Company data

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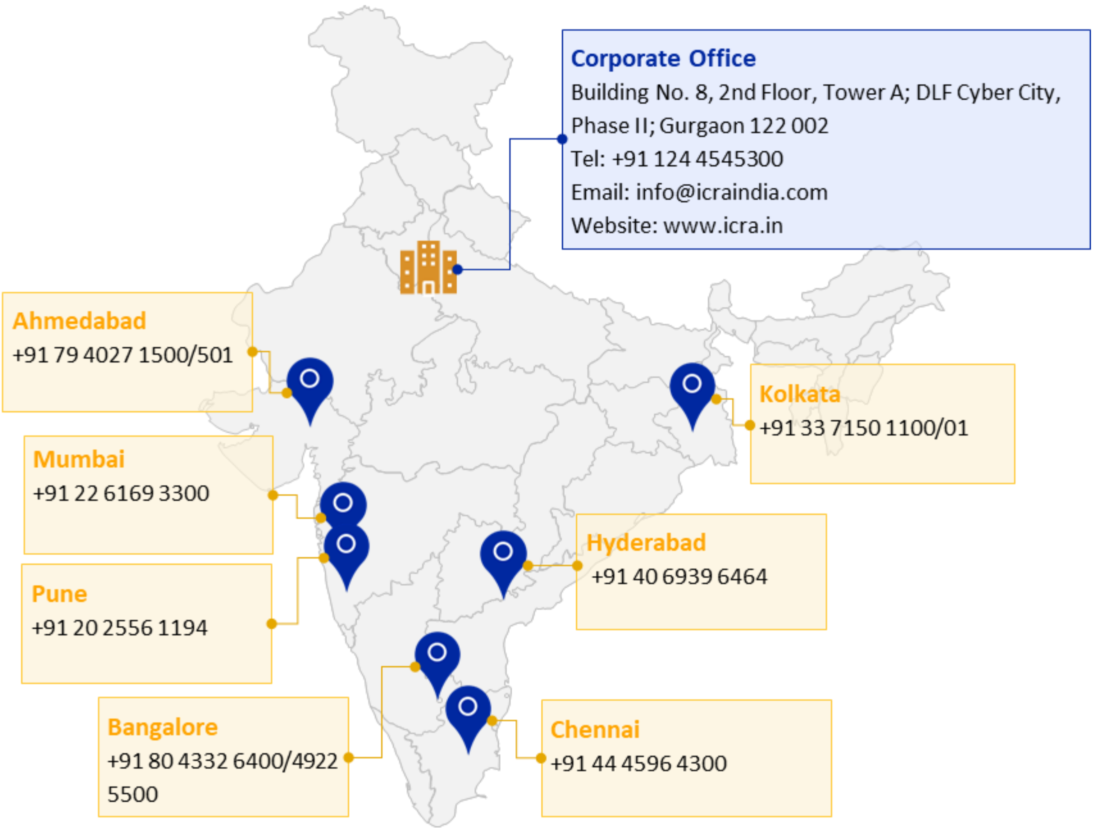

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