

November 25, 2022

Ultra Corpotech Private Limited: Ratings reaffirmed; assigned to enhanced limit

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based and non fund based working capital limits^	310.00	450.00	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed; assigned to enhanced limit
Fund-based Term Loan	172.36	155.27	[ICRA]A+(Stable); reaffirmed
Unallocated limits	7.64	0.73	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Total	490.00	606.00	

*Instrument details are provided in Annexure-I, ^ Fund based and non-fund based limits are interchangeable

Rationale

The rating reaffirmation factors in the robust performance of Ultra Corpotech Private Limited's (UCPL) in FY2022 and ICRA's expectation of healthy revenue growth and return metrics over the medium term, supported by favourable demand and healthy order inflows from oil and gas and renewable segments. The company's revenue grew by 168% to Rs. 1580.80 crore in FY2022 from Rs. 588.8 crore in FY2021. The company has reported revenues of ~Rs. 1358 crore in 7MFY2023 and given the pending order book of ~Rs. 1100 crore as of October 31, 2022, ICRA expects a healthy revenue growth in FY2023.

The ratings also take into account the strong operational performance of Ultra Corpotech Private Limited (UCPL), aided by its strong engineering and product development capabilities as well as its established business of supplying precision machining equipment to reputed global Original Equipment Manufacturers (OEMs) and tier-1 manufacturers. The prospects of UCPL remain linked to global demand conditions of key end user industry—oil and gas sector, which constituted majority of the entity's revenues. The operating profit margins of the company remains healthy as the company manufactures complex and high value-added machined components which are mainly IP products for most of the clients. The operating margins improved to ~28.2% in FY2022 from 21.4% in FY2021, led by a higher scale. The ratings also favourably factor in the entity's healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators.

The ratings, however, remain constrained by its high revenue concentration. UCPL's revenues, though derived from various sectors, remains concentrated on the top-two sectors i.e., oil and gas and renewable energy (that combinedly formed 83% and 84% of the revenues in FY2022 and 3MFY2023 respectively), which exposes the entity to the cyclicity of the end user industry. Additionally, even as the entity caters to multiple customers, a significant amount of its revenue emanates from the top-two customers (formed ~69% and 68% of the revenues in FY2022 and 3MFY2023 respectively), resulting in customer concentration risk. While its current order book is also concentrated with its top two clients. This risk is, however, mitigated to an extent by its established relationship with the customer and the multiple touch points with the customer across the globe. Additionally, UCPL's effort to diversify its customer mix through new additions is likely to help reduce the concentration. While UCPL's inventory management policy aids its revenue growth and profitability prospects, it also results in higher blockage of funds in working capital requirements, which gets elevated by credit periods offered to the customers. The ratings are also constrained by the exposure of UCPL's profitability to the raw material price fluctuations as the price-revision occurs usually after a certain period and if only the price rise in is above a certain level (say 5%) and exchange rate fluctuations as it remains partially unhedged.

The Stable outlook on the rating reflects ICRA's expectation that the UCPL will continue to maintain its credit profile, backed by expected sustained revenue growth, and healthy debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and established track record of operations - Mr. Ashok Bhosle founded the entity in 1991 as a manufacturer of dies, moulds and precision components. Over the three decades, it has marked its presence as one of the top precision components supplier of the oil and gas and Renewable energy segments. With more than 3 decades of experience, it has been able to forge strong relationship relationships with OEMs and suppliers, benefitting from its strong engineering and development capabilities.

Reputed client profile with established relationships- UCPL's customer profile consists of reputed tier-1 players and OEMs in the oil and gas and renewable energy segments such as Halliburton group, Array Technologies Inc., and General Electric group. The entity has been able to forge a strong relationship with these clients that have resulted in repeated orders from these customers. Also, it has continuously been adding new customers over the years. The entity continues to explore opportunities to increase its business with other customers in the oil and gas and power and energy segments.

Improvement in scale and profitability in FY2022; expected improvement in the current fiscal- After witnessing a sharp decline in the revenues in FY2021, the supplies to OEMs have ramped up in a healthy manner in FY2022, with 3-fold revenues at Rs. 1580.80 crore that grew from Rs. 588.8 crore in FY2021 mainly with increased off-take from the existing client in oil and gas industry and renewable space along with the gradual capacity expansion carried out by the firm periodically. UCPL has reported revenue of Rs. 1358 crore in 7MFY2023, which coupled with healthy order book of ~Rs. 1100 crore as of October, 2022 end, to be executed in the next 4-6 months, lends a healthy revenue growth visibility in FY2023. The operating profit margins of the company remains healthy as the company manufactures complex and high value-added machined components which are mainly IP products for most of the clients. The operating margins improved to ~28.2% in FY2022 from 21.4% in FY2021, led by a higher scale. Going forward, the return metrics are expected to continue to remain healthy in the medium term.

Strong financial risk profile characterised by low gearing and healthy coverage indicators- UCPL's financial risk profile remains healthy, characterised by conservative capital structure and strong debt coverage indicators, led by strong profitability and low dependence on external borrowings. The adjusted (for optionally convertible preference shares) gearing stood at 0.6 time as of March 31, 2022. The debt coverage indicators remain at robust levels, with the company having an interest coverage of 39.2 times and adjusted Total Debt/OBDITA of 0.38 times in FY2022. The business of the entity is capital intensive in nature and requires the constant capacity enhancement to meet the increasing demand and upgradations. Hence, there would be moderate capex each year, to be funded through a mix of term loan and internal accruals. Nonetheless, overall capital structure and coverage indicators expected to remain comfortable going forward.

Credit challenges

High customer concentration risk- UCPL caters to many customers; however, its revenues and order book remain concentrated on the top-two customer (formed 68%-69% of the revenues in last two years). While the high customer concentration risk exposes the firm to vulnerability in demand from the OEM and sector downturn. Additionally, UCPL's efforts to diversify its customer mix helped reduce its single customer dependence to an extent; a ramp up in supplies for its other businesses is likely to help reduce the concentration risk, going forward.

Working capital intensive operations- UCPL's working capital intensity remains high at ~35-45% during FY2017 to FY2022 (except for 60.4% in FY2021), mainly driven by high inventory requirements and receivable cycle. The same is a consequence of its global delivery service to the prominent clients in its portfolio on a timely basis, and hence the requirement to maintain the inventory. Also, the debtor days for the company have stood high, mainly led by credit period of upto 120 days extended to its customers.

Exposure to inherent demand cyclicity in key end-user segments-The entity derives its revenues majorly from two sectors i.e, Oil and gas segment and renewable energy segment, which are largely dependent on global/ macro-economic growth. A

bulk of UCPL's revenues emanate from the exports markets, with domestic supplies constituting below 25% of its revenues. Accordingly, UCPL's prospects remain linked to global demand conditions, which constitutes majority of the entity's revenues.

Exposure of profitability to price variations in raw material prices and foreign currency fluctuation risk- With exports contributing to ~75-80% of the entity's revenues, the company is susceptible to exchange rate fluctuations. Though the entity's foreign currency exposure from exports remains largely open, it is mitigated partially by the natural hedged from imports and foreign currency borrowings. The company's margins also remain exposed to the changes in the raw material prices, though most of the contracts have pass through clauses, nonetheless, there is time lag for passing on such price increase. The company also has a policy of back-to-back order-backed purchases.

Liquidity position: Adequate

UCPL's liquidity position is adequate backed by the cushion available in its working capital limit and sufficient cash generation from its business to manage its working capital requirements and debt repayments. The liquidity is further supported by free cash and bank balance of ~Rs. 39.11 crore as on March 31, 2022. While it has large capex plans, a predominant share of the same is expected to be funded internally. The company has unutilised working capital limits of ~Rs. 14 crore as on September 2022 end. Moreover, the working capital limits are enhanced by Rs. 120 crore which supports the liquidity position of the company.

Rating Sensitivities

Positive factors – ICRA could upgrade UCPL's rating if there is a substantial growth in revenues while maintaining healthy profitability; diversification in its customer base; and improvement in liquidity position.

Negative factors – ICRA could downgrade the ratings if any significant decline in the scale or profitability deteriorates the company's financial risk profile. ICRA would also downgrade if there is any further stretch in the working capital cycle or any debt-funded capex pressurizes the liquidity. Specific trigger that may be downgraded with adjusted TD/OPBDITA of more than 2 times on a sustained basis.

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 standalone financials of UCPL (Succeeded from Ultra engineers)

About the Company

Established in 1991, as Ultra Engineers, as a proprietorship firm of Mr. Ashok Bhosle, involved in manufacturing and supplying a wide range of precision machined components that are used in various products and sub-assemblies. The business of the sole proprietorship has been succeeded to a private limited company namely Ultra Corpotech Private Limited w.e, f. October 1, 2021. The entity's operations are driven by the proprietor, Mr. Ashok Bhosle, who has more than 3 decades of experience in the machine-tooling industry. It manufactures precision-machined components for oil and gas, power and energy, transport, and other industries made of raw materials such as aluminum, brass, and steel. The firm has nine factory locations and the 10th location under construction across Pune, with a total 1 million Sq. feet built-up area. The facilities carry various certifications such as KIWA ISO 9001-2015, DIN EN ISO 3834-2, API- Monogram-7-1-1451, API Monogram-5CT-1997, TPG HEATTREATMENT 1000487, TPG NDT 1004848.

Key financial indicators (audited)

UPCL Standalone	Ultra Engineers		Ultra Corpotech Private Limited^
	FY2020	FY2021	FY2022
Operating income (Rs. crore)	827.6	588.8	1,580.8
PAT (Rs. crore)&	195.6	90.2	349.6
OPBDIT/OI	27.9%	21.4%	28.2%
PAT/OI	23.6%	15.3%	22.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.5	3.9
Total debt/OPBDIT (times)	0.4	0.9	1.6
Adjusted total debt/OPBDIT (times) [§]	-	-	0.4
Interest coverage (times)	20.1	17.6	39.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, ^ combined financials of Ultra Engineers (April 2021 to September 2021) and Ultra Corpotech Private Limited (FY2022), [§]debt adjusted for preference share capital, & Ultra engineers' profit is before taxations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2023)					Chronology of Rating History for the past 3 years				
Instrument		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 25, 2022	Sep 30, 2022	Oct 11, 2021	-	-
1	Fund based and non-fund based working capital facilities	Long-term and short term	450.0	-	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A2+	-	-
2	Term Loan	Long-term	155.27	84.4	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	-	-
3	Forward Cover	short term	-	-	-	-	[ICRA]A2+	-	-
4	Unallocated	Long-term and short term	0.73	-	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based working capital facilities	Simple
Non- Fund based working capital facilities	Very Simple
Term Loan	Simple

Unallocated

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based and non-fund based working capital facilities	NA	NA	NA	450.0	[ICRA]A+(Stable)/ [ICRA]A1
NA	Term Loan	FY2018	NA	FY2025	71.52	[ICRA]A+(Stable)
NA	Term Loan	FY2018	NA	FY2028	83.75	[ICRA]A+(Stable)
NA	Unallocated	NA	NA	NA	0.73	[ICRA]A+(Stable)/ [ICRA]A1

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

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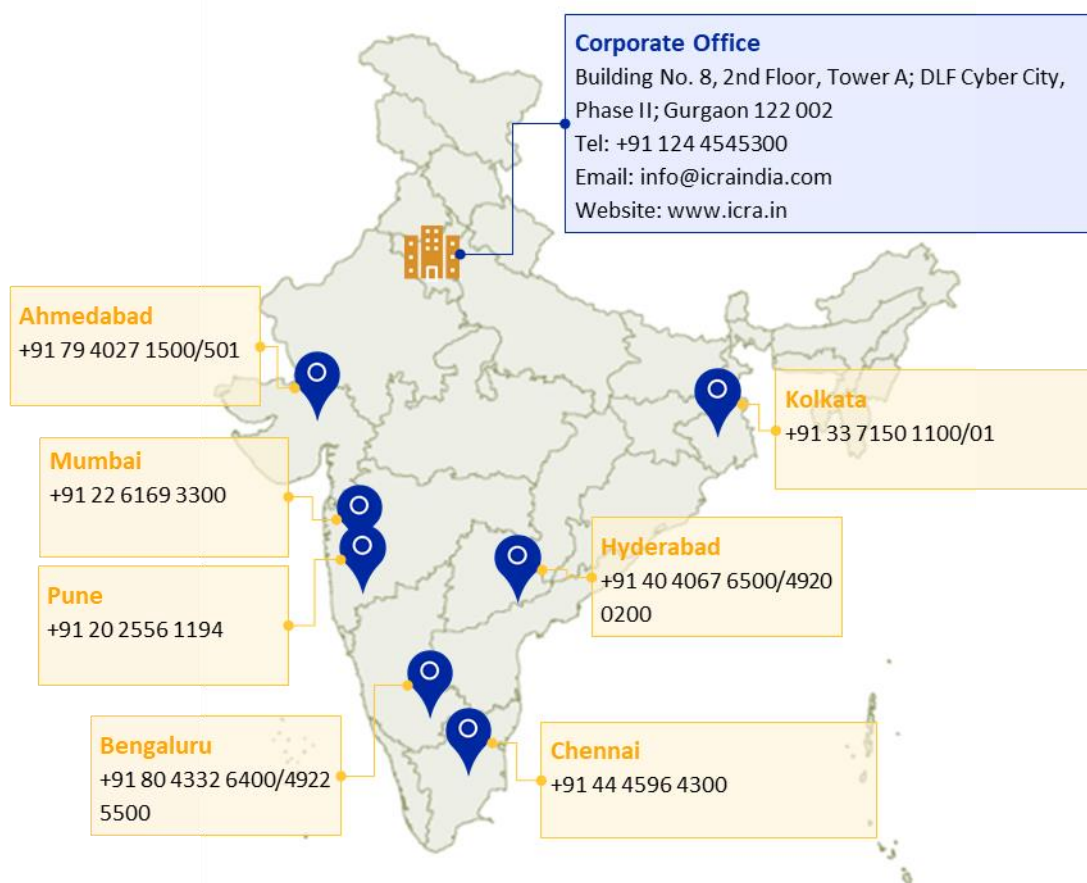
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