January 23, 2023

Uneecops Technologies Limited: Ratings upgraded; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ CC	18.00	18.00	[ICRA]BBB; upgraded from [ICRA] BBB-; outlook revised to Stable from Positive
Long-term Fund-based Term Loan	4.80	4.80	[ICRA]BBB; upgraded from [ICRA] BBB-; outlook revised to Stable from Positive
Short-term Non-fund Based	30.40	30.40	[ICRA]A3+; upgraded from [ICRA]A3
Total	**53.20**	**53.20**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Uneecops Technologies Limited (UTL) factors in its strong revenue growth in FY2022 and 9M FY2023, resulting in improvement in its credit profile and liquidity position. UTL reported revenue of Rs. 203 crore in FY2022 (recording 23% YoY growth) and Rs. 335 crore in 9M FY2023, with the growth momentum expected to sustain in the near term supported by its healthy order book and deal pipeline. Revenue growth in last two years is 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)[1] 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 high debtor days, and its moderate scale of operations, resulting in limited economies of scale. These factors, coupled with limited pricing flexibility from the high competitive intensity in the industry and the limited value-add nature of its operations, 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.

The Stable outlook on UTL's long-term rating reflects ICRA's opinion that the company will continue to benefit from its executional capabilities, established operational track record of executing orders for public sector entities, as well as its order book position.

[1] *The FLN mission is a GoI initiative to ensure that children attain foundational literacy and numeracy skill by Class III.*

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. 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. UTL is also 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 PSUs (Public Sector Undertaking) 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, 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 – The company's financial risk profile is comfortable with gearing of 0.4 time as on October 31,2022 (0.4 time as on March 31, 2022) and healthy debt protection metrics with interest coverage of 23.0 times (5.8 times in FY2022) and Total Debt/OPBITDA of 0.6 time (1.9 times for FY2022) for 7M FY2023[2] on account of moderate debt levels and steady internal accrual generation. Moreover, UTL's capitalisation and coverage metrics are expected to remain comfortable over the medium term, supported by increased accrual generation.

Credit challenges

Highly competitive intensity of 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 based on competitive pricing, CSPL'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 at 5.6% in FY2022 due to competitive pressure and the limited value-added nature of operations. Moreover, with most of the company's 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 – 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.

Liquidity position: Adequate

The company's liquidity profile has remained adequate supported by internal accruals, free cash balances and liquid investments of ~Rs. 8 crore and unutilised cash credit limit of Rs. 1.5 crore as of October 2022. Moreover, the absence of any major debt repayment obligations and capex plans in the short term further support the company's liquidity profile.

Rating sensitivities

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

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[2] *7M FY2023 refers to April 2023 to October 2023*

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 Rating Methodology for Entities in the Information Technology Hardware-related Services Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the 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 installation and commissioning of solar power systems for various PSUs and provides website/application development services to various Government entities as well.

Key financial indicators

	FY2021	FY2022
Operating income	165.6	203.9
PAT	6.2	10.1
OPBDIT/OI	7.4%	5.6%
PAT/OI	3.7%	5.0%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	1.5	1.9
Interest coverage (times)	4.8	5.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Dec 31,2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jan 23, 2023	Mar 04, 2022	Feb 23, 2021	Jun 30, 2020	Sep 19, 2019
1	**Cash Credit**	Long-term	18.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	**Term Loans**	Long-term	4.80	3.2	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-	-
3	**Non-Fund Based**	Short-term	30.40	-	**[ICRA]A3+**	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non-Fund Based	Very Simple

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	18.00	[ICRA]BBB (Stable)
NA	**Term Loans**	FY2021	-	FY2025	4.80	[ICRA]BBB (Stable)
NA	**Non-fund Based**	NA	NA	NA	30.40	[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 22 6114 3442
kinjal.shah@icraindia.com

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

Pawan Mundhra
+91 20 6606 9918
Pawan.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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.

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ICRA Limited

Registered Office

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

Branches