

December 27, 2023

Ultra Corpotech Private Limited: Ratings reaffirmed; Rated amount enhanced and outlook revised to Positive from Stable

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 [^]	450.00	430.00	[ICRA]A+/[ICRA]A1 reaffirmed; outlook revised to Positive from Stable
Fund-based - Term loan	155.27	280.27	[ICRA]A+ reaffirmed/ assigned; outlook revised to Positive from Stable
Unallocated limits	0.73	0.73	[ICRA]A+/[ICRA]A1 reaffirmed; outlook revised to Positive from Stable
Total	606.00	711.00	

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

Rationale

The revision in the outlook on Ultra Corpotech Private Limited's (UCPL) long-term rating to Positive from Stable reflects ICRA's expectation of a sustained healthy operating and financial performance in the near to medium term following a better-than-expected performance in FY2023.

UCPL's revenues are expected to remain robust at ~Rs. 2,400 crore in the current fiscal, following a 55% year-over-year (YoY) revenue growth in FY2023. This comes on the back of a sustained healthy demand from the oil and gas and renewable sectors, reflected in a strong order book position as of October 15, 2023. UCPL is expected to maintain the debt coverage metrics and liquidity position at a comfortable level, while the operating margins are seen to exceed ~30% in the current fiscal.

The ratings also consider UCPL's robust operational performance, aided by its strong engineering and product development capabilities. Its established business of supplying precision and high-quality heavy-duty metal components to reputed global original equipment manufacturers (OEMs) and tier-1 manufacturers is also taken into account. The prospects of UCPL remain linked to the global demand conditions of key end-user industries, the oil and gas and renewable energy sectors, which constitute majority of the entity's revenues. The ratings also favourably factor in the entity's healthy financial risk profile, characterised by a robust capital structure and strong debt coverage indicators.

The ratings, however, remain constrained by UCPL's high revenue concentration. Its revenues, although derived from various sectors, remain concentrated on the top two sectors, i.e. oil and gas and renewable energy (together constituting ~85% of the revenues in FY2023 and H1 FY2024), which exposes the entity to the inherent cyclicity of the end-user industry. Additionally, even as the entity caters to multiple customers, a significant amount of its revenue is derived from its top two customers (constituting ~69% and 63% of the revenues in FY2023 and H1 FY2024 respectively), resulting in customer concentration risk. However, its current order book indicates a moderation in concentration with the top two customers contributing ~39% to the order book (~69% in the last order book) owing to the addition of new customers. Further, the risk is mitigated to an extent by the company's established relationship with customers and the multiple touchpoints across the globe.

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. This is accentuated by the credit periods extended to customers. The ratings

are also constrained by the exposure of UCPL's profitability to the fluctuation in raw material prices, as price revisions usually occur after a certain period and only if the price rise exceeds a certain level (e.g., 5%). Moreover, the company is exposed to exchange rate fluctuations as it remains partially unhedged.

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, UCPL has marked its presence as one of the top precision components suppliers to the oil and gas and renewable energy segments. With more than three decades of experience, UCPL has been able to forge strong 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. The entity has been able to forge a strong relationship with these clients, which has resulted in repeat orders from these customers. Also, it has been continuously adding new customers over the years. The entity continues to explore opportunities to increase its business with other customers in the oil and gas, power and energy segments.

Healthy improvement in scale and profitability - In FY2023, the company reported revenues of ~Rs. 2,435 crore, a growth of 55%, driven by healthy demand from the oil and gas segment that contributed Rs. ~1,330 crore to the revenues (90% growth from Rs. 701 crore in FY2022). In the current fiscal, the company reported revenues of ~Rs. 1,164 crore in H1 FY2024, and the current order book in hand of ~Rs. 987 crore as on October 15, 2023 lends revenue visibility in the near term. The operating profit margins remain healthy as the company manufactures complex and high-value-added machined components, which are mainly intellectual property (IP) products for most clients. The operating margins improved YoY, led by higher scale and lower manufacturing overheads. Going forward, the return metrics are expected to remain healthy in the medium term.

Strong financial risk profile - UCPL's financial risk profile remains healthy, characterised by a comfortable capital structure and strong debt coverage indicators, led by a strong net worth base and robust profitability. The adjusted gearing [(debt adjusted for optionally convertible preference shares (OCRPS))] stood at 0.4 times as on March 31, 2023 (1.0 times as on March 31, 2022). The debt coverage indicators remain robust, with the company having an interest coverage of 33.1 times and adjusted total debt/OBDITA of 0.4 times in FY2023 (29.2 times and 0.5 times in FY2022, respectively). The entity's business is capital-intensive and requires constant capacity enhancement to meet the increasing demand and upgradations. Hence, there would be a capex of Rs. 300 crore each year, which is to be funded through a mix of term loans and internal accruals. Nonetheless, the overall capital structure and coverage indicators are expected to remain comfortable, going forward.

Credit challenges

High customer concentration risk - UCPL caters to many customers. However, its revenues remain concentrated on the top two customers (constituting ~69% of the revenues in the last two years). While the high customer concentration risk makes the company vulnerable to demand from OEMs and sector downturns, UCPL's efforts to diversify its customer mix helped reduce its dependence on the top two customers to an extent. The increase in supplies for its other businesses is also likely to help reduce the concentration risk, going forward.

Working capital-intensive operations - UCPL's working capital intensity remains high at ~40% over the last two fiscals, driven by high inventory requirements and receivable cycle. It has to maintain high inventory because of its global delivery service to prominent clients on a timely basis. Also, the debtor days have stood high, led by a credit period of up to 120 days extended to its customers.

Exposure to inherent demand cyclicality in key end-user segments - The entity derives its revenues majorly from two sectors, i.e. oil and gas and renewable energy, which are largely dependent on global/macroeconomic growth. A bulk of UCPL's revenues is derived from the export markets, with domestic supplies constituting below 25% of its revenues. Accordingly, UCPL's revenue prospects remain linked to the global demand conditions.

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

Liquidity position: Adequate

UCPL's liquidity position is adequate and 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 cash equivalents of ~Rs. 292 crore as on September 30, 2023. The company has capex plans of ~Rs. 300 crore annually, which are likely to be funded through a mix of debt and internal accruals. Further, the company's working capital limit utilisation (sanctioned limits – Rs.430 crore) stood low at 16% for nine months ended September 2023, which provides additional cushion.

Rating sensitivities

Positive factors – ICRA could upgrade UCPL's ratings if it sustains a healthy scale of operations and strong margins along with a diversification in its customer base and maintaining a healthy 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

Ultra Corpotech Private Limited (UCPL) was established in 1991 as Ultra Engineers, a proprietorship firm under Mr. Ashok Bhosle manufacturing and supplying a wide range of precision machined components used in various products and sub-assemblies. The sole proprietorship business transitioned into a private limited company, Ultra Corpotech Private Limited, effective October 1, 2021. The entity's operations are driven by Mr. Ashok Bhosle, who has more than three decades of experience in the machine tooling industry. It manufactures precision-machined components for oil and gas, power and energy, transport, and other industries, using raw materials such as aluminium, brass, and steel. The company has factories at 10 locations across Pune with over 1 million square feet of built-up area.

Key financial indicators (audited)

UCPL Standalone	FY2022	FY2023
Operating income	1,569.6	2,434.7
PAT	210.2	607.4
OPBDIT/OI	29.9%	36.0%
PAT/OI	13.4%	24.9%
Total outside liabilities/Tangible net worth (times)	4.3	1.4
Total debt/OPBDIT (times)	1.7	1.0
Adjusted total debt/ OPBIDT (times)\$	0.5	0.4
Interest coverage (times)	29.2	33.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; \$ Debt adjusted for OCRPS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
				Dec 27, 2023	Nov 25, 2022	Sep 30, 2022	Oct 11, 2021	-	
1	Fund-based and non-fund based working capital facilities	Long term and short term	430.00	--	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A2+	-
2	Term loan	Long term	280.27 [^]	149.87	[ICRA]A+ (Positive)	[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+ (Positive)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A2+	-

[^]Includes yet to be disbursed amount of Rs. 125 crore

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
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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	430.00	[ICRA]A+(Positive)/[ICRA]A1
NA	Term loan	FY2018	NA	FY2028	280.27	[ICRA]A+(Positive)
NA	Unallocated	NA	NA	NA	0.73	[ICRA]A+(Positive)/[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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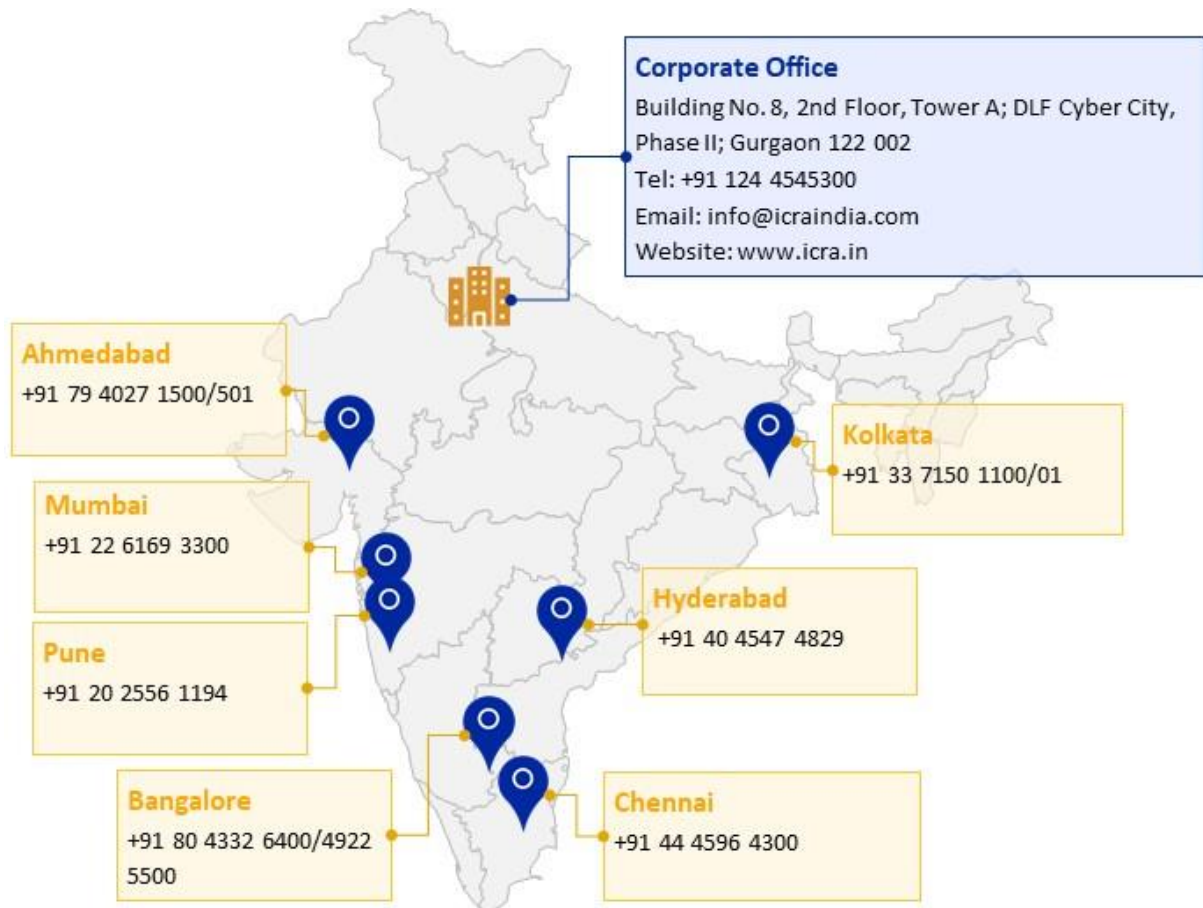
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