

November 29, 2024

Unecops Technologies Limited: Ratings upgraded; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ Cash credit	36.00	40.00	[ICRA]BBB+; upgraded from [ICRA]BBB; outlook revised to Stable from Positive and assigned for the enhanced amount
Long-term Fund-based Term Loan	3.20	3.00	[ICRA]BBB+; upgraded from [ICRA]BBB; outlook revised to Stable from Positive
Short-term Non-fund Based	45.00	60.00	[ICRA]A2; upgraded from [ICRA]A3+ and assigned for the enhanced amount
Long-term/ Short-term – Unallocated	4.00	0.20	[ICRA]BBB+/[ICRA]A2; upgraded from [ICRA]BBB/[ICRA]A3+; outlook revised to Stable from Positive
Total	88.20	103.20	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Unecops Technologies Limited (UTL) takes into account the strong revenue growth and higher internal accruals reported by the company in FY2024 and ICRA's expectation that the same would sustain in the near-to-medium term. UTL's revenue has witnessed a CAGR of 28% over the past five years, backed by execution of healthy orders from Government entities, especially in the education sector to set up virtual classrooms under the Government of India's (GoI) initiatives across various states. The company's revenue grew by 38% to Rs. 525 crore in FY2024 and ICRA expects the growth momentum to continue over FY2025-26, given the company's healthy order book of Rs. 857 crore as on September 30, 2024. 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 from the public sector.

However, ICRA notes the company's increased dependence on external borrowings to fund the growing scale of operations owing to high receivable days, inherent to the industry. Nonetheless, the company has been able to collect its receivables on a timely basis with no receivables exceeding 180 days as on September 30, 2024. Also, the company's healthy revenue growth and internal accrual generation enabled it to maintain a comfortable capital structure and adequate liquidity position.

The ratings are, however, constrained by UTL's high working capital intensity owing to high receivable days. Limited pricing flexibility owing to intense competition in the industry and limited value-add nature of its operations 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.

The Stable outlook on UTL's long-term rating reflects ICRA's opinion that the company will report healthy revenue growth and accrual generation over the near-to-medium term, supported by execution of its healthy order book position.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of promoters in the 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 in the education sector. Also, it is involved in installing and commissioning of solar power systems for public sector entities. The company also generates revenue from licencing ESRI software, along with developing and maintaining websites for various public sector undertakings (PSUs) and Government bodies.

Low counterparty risk as most customers are from the public sector— The company faces low counterparty risks as most of the customers are from the public sector which include Odisha Computer Application Centre, Axom Sarbha Shiksha Abhiyan Mission, Telecommunications Consultants India Limited (TCIL), Railtel Corporation of India (Railtel), Airports Authority of India, Delhi Police, National Informatics Centre Service Inc. (NICSI), etc.

Comfortable capital structure and coverage indicators – UTL’s capital structure remains comfortable, supported by strong revenue growth resulting in healthy internal accruals. Also, the company continues to have healthy debt protection metrics with an interest coverage of 10.5 times and DSCR of 6.4 times for FY2024. However, to fund the growing scale of operations, UTL’s overall debt levels increased to Rs. 111.6 crore as on March 31, 2024 (Rs. 23.9 crore as on March 31, 2023) owing to high receivable days at the year end. Notwithstanding this, the company has been able to collect its receivables on a timely basis, leading to significant moderation in the overall debt levels. Going forward, its capital structure and debt protection metrics are expected to remain comfortable, supported by steady accrual generation and absence of any debt-funded capex over the near-to-medium term.

Healthy revenue growth in recent years; momentum expected to sustain because of sizeable order book position — UTL has posted a healthy revenue growth in FY2024, supported by steady execution of its order book. UTL earned an aggregate revenue of Rs. 525 crore during the year (Rs. 478 crore in FY2023). The growth momentum is expected to continue in FY2025, with the company posting revenue of Rs. 625 crore until H1 FY2025. Further, it has a healthy outstanding order book of Rs. 857 crore (as on September 30, 2024), which is expected to support revenue growth over the near term.

Credit challenges

Intense competition 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 remains moderate. Intense competition exerts pricing pressure and limits its bargaining power. 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 7-7.2% due to competitive pressure and limited value-added nature of its operations. As most of its orders are fixed-price in nature, it is unable to pass on the rise in prices to its end-customers. UTL’s ability to maintain a healthy order inflow and their timely execution would remain key for sustaining the margins, going forward.

High working capital intensity – Usually, UTL’s working capital intensity remains high owing to high debtor levels with a predominant share of receivables from Government entities, resulting in increased working capital requirement.

Liquidity position: Adequate

UTL’s liquidity profile is adequate, supported by improved internal accruals, free cash and bank balances of ~Rs. 127 crore along with buffer in its working capital limits of ~Rs. 6.5 crore as of September 30, 2024. Also, UTL plans to avail enhanced

bank limits to support its growing scale of operations. The company has debt repayment obligation of Rs. 10.44 crore in FY2025 while no major capex plans are expected for the year.

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 – 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 ratings downgrade. Specific credit metrics that could result in ratings downgrade include an interest coverage below 3.5 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 the company’s 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 installing and commissioning of solar power systems for various PSUs, besides providing website/application development services to various Government entities. 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	FY2023	FY2024
Operating income	389.3	525.7
PAT	17.8	27.5
OPBDIT/OI	7.2%	7.1%
PAT/OI	4.6%	5.2%
Total outside liabilities/Tangible net worth (times)	0.9	2.0
Total debt/OPBDIT (times)	0.8	3.0
Interest coverage (times)	14.1	10.5

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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)	Nov 29, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based limits – Cash credit	Long term	40.00	[ICRA]BBB+ (Stable)	20-Mar-2024	[ICRA]BBB (Positive)	23-Jan-2023	[ICRA]BBB (Stable)	04-Mar-2022	[ICRA]BBB -(Positive)
Fund based limits – Term loan	Long term	3.00	[ICRA]BBB+ (Stable)	20-Mar-2024	[ICRA]BBB (Positive)	23-Jan-2023	[ICRA]BBB (Stable)	04-Mar-2022	[ICRA]BBB -(Positive)
Non-fund based limits	Short term	60.00	[ICRA]A2	20-Mar-2024	[ICRA]A3+	23-Jan-2023	[ICRA]A3+	04-Mar-2022	[ICRA]A3
Unallocated limits	Long/Short term	0.20	[ICRA]BBB+ (Stable)/ [ICRA]A2	20-Mar-2024	[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	40.00	[ICRA]BBB+(Stable)
NA	Term Loans	FY2021	8.50-9.50%	FY2026	3.00	[ICRA]BBB+(Stable)
NA	Non-fund Based	NA	NA	NA	60.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	0.20	[ICRA]BBB+(Stable)/ [ICRA]A2

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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