

UMSL Limited (Erstwhile Utkal Manufacturing & Services Limited)

October 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund-based- Working Capital Facilities	80.00	120.00	[ICRA]A- (Stable); Reaffirmed
LT- Non-fund based limits	70.00	40.00	[ICRA]A- (Stable); Reaffirmed
ST- Non-fund based limits	60.00	128.00	[ICRA]A2+; Reaffirmed
ST- Unallocated limits	50.00	0	-
Total	260.00	288.00	

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 120.00-crore¹ (enhanced from Rs 80.00 crore) fund based and Rs 40.00-crore (revised from Rs 70 crore) non-fund based bank facilities of UMSL Limited (Erstwhile Utkal Manufacturing & Services Limited) (UMSL)² at [ICRA]A- (pronounced ICRA A minus). ICRA has also reaffirmed the short-term rating assigned to the Rs 128.00-crore (enhanced from Rs 60.00 crore) non-fund-based limits at [ICRA]A2+ (pronounced ICRA A two plus). The outlook on the long-term rating is Stable. The previous unallocated limits of Rs 50 crore, earlier rated at [ICRA]A2+, stands reallocated to fund-based and non-fund based limits of the company for which [ICRA]A-(stable) and [ICRA]A2+ has been reaffirmed.

Rationale

The ratings consider UMSL's healthy growth in operating income during the last two financial years, aided by an increase in order inflows and successful execution of infrastructure projects. Besides, the company has a favourable financial risk profile, as indicated by a conservative capital structure and comfortable debt-coverage indicators. ICRA also notes that the company has booked profit on sale of investment in Group entities worth around Rs. 34.70 crore in FY2018, leading to higher net profits and cash accruals. However, the operating profitability declined in FY2018 owing to implementation of the GST, leading to higher effective tax incidence, which was not passed on to most of the ongoing projects. However, new projects have factored in the increased rates. While reaffirming the ratings, ICRA has also favourably considered the comfortable order book position of UMSL with pending order book of Rs.560 crore as on March 31, 2018 (1.9 times of the infrastructure revenue in FY2018), which provides revenue visibility over the short to medium term. UMSL has a reputed client profile consisting of government and semi-government agencies, thereby reducing counterparty risks. The ratings continue to be supported by the long track record of the company in the logistics and civil construction business.

The ratings are, however, constrained by the intensely competitive business environment, characterised by the presence of numerous players. Besides, a tender-based contract-awarding system tends to keep the operating margins under check. The company also remains exposed to geographical concentration risk with most of the projects concentrated in Odisha and Chhattisgarh. ICRA, however, notes that the company has already procured contracts and is also in the process of adding more contracts in Jharkhand and Chhattisgarh, which would mitigate the above risk to some extent.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

While the order book remains healthy, any delays in receipt of clearances from the authorities or delays in project execution by the company, could have a potential impact on the future revenue growth and liquidity position. In addition, the higher encumbered fixed deposit balances primarily for margin money as well as for projects in Orissa has adversely impacted the liquidity position in the past. However, the recent change in Government ruling in Orissa, where bank guarantee is now accepted, is likely to support the liquidity position going forward. Also, given the healthy relationship with the banks, the company has enhanced its fund-based and non-fund-based limits in the past to support the increased requirement. Going forward, the company's ability to execute orders in a timely manner, while maintaining its profitability and managing its working capital requirements will remain key rating sensitivities.

Outlook: Stable

ICRA believes that UMSL will continue to improve its operating profile, supported by a comfortable order book position as well as its track record of timely order execution. The outlook may be revised to Positive if a substantial growth in revenue and profitability, and better working capital management strengthen its financial risk profile. The outlook may be revised to Negative in case of weakening of the financial risk profile owing to a further drop in operating profitability, delay in project execution and higher receivable position from government agencies.

Key rating drivers

Credit strengths

Healthy growth in operating income during last two financial years; outstanding order-book position provides revenue visibility – The operating income of UMSL increased from Rs. 254 crore in FY2016 to Rs. 409 crore in FY2018, backed by an increase in order inflows and successful execution in the infrastructure division. UMSL has an outstanding order book of ~Rs. 560 crore as on March 31, 2018, which indicates a trailing book-to-bill ratio of ~1.9 times of FY2018 revenues from the infrastructure division. These orders are scheduled to be executed over the next two years, providing revenue visibility in the near to medium term. The total revenue from the logistics division was around Rs. 100 crore in FY2018 and is expected to remain at similar levels, going forward.

Healthy financial profile, reflected by favourable capital structure and comfortable debt coverage indicators – The company has a comfortable financial risk profile as it continues to maintain a conservative capital structure with a gearing of 0.4 times as on March 31, 2018. The debt-protection metrics of UMSL have also remained comfortable, as reflected by interest cover, NCA/total debt and total debt/OPBDITA of 2.80 times, 59% and 2.5 times, respectively in FY2018. The operating profit margin declined during FY2018 owing to implementation of the GST leading to higher effective tax incidence, which was not passed on for most of the ongoing projects. However, new projects have factored in the increased rates. ICRA also notes that the company has booked profit on sale of investment in Group entities of around Rs. 34.70 crore in FY2018, leading to higher net profits and cash accruals in FY2018.

Client portfolio, comprising government and semi-government agencies, reduces counterparty risks - The client portfolio of UMSL comprises various government and semi-government agencies like Road Construction Department, Building Construction Department, National Highway Authority of India, World Bank-funded projects etc, which result in low counterparty credit risk.

Long track record of the company in logistics solutions as well as in civil construction- UMSL's promoters have experience of around three decades in the road transportation of minerals and metal products. The company is primarily catering to the logistics requirement of its group company, Indian Metal & Ferro Alloys Limited (IMFA), which is India's largest fully-integrated producer of ferro alloys. In addition, the company is involved in undertaking construction of roads, buildings, bridges, canals etc for the past several years, which now contribute almost 73% of the total revenue of the company in FY2018.

Credit challenges

Intense competition, tender-based contract awarding system keep margins under check – ICRA notes that the civil-construction industry is intensely competitive due to its fragmented nature with the presence of a large number of players. This coupled with the lowest bidding system keeps margins of all players, including UMSL, under check. The margin is also exposed to volatility in raw material prices. ICRA, however, notes that the built-in price-variation clause in most of the contracts mitigates the said risk to an extent.

Delays in execution of contracts could adversely impact revenue growth and liquidity position - The current orders have an average tenure of two to three years. However, delays, if any, in receipt of clearances from the awarding authorities or delays in project execution by the company could have a potential impact on its future revenue growth and liquidity position. In addition, the higher encumbered fixed deposit balances primarily for margin money as well as for projects in Orissa has adversely impacted the liquidity position in the past. However, the recent change in Government ruling in Orissa, where bank guarantee is now accepted, is likely to support the liquidity position going forward.

Exposure to geographical concentration risks– A significant number of orders, to be executed by the company, are in Odisha and Chhattisgarh, thus, exposing it to geographical concentration risks. ICRA, however, notes that the company has procured contracts/in the process of adding more contracts in Jharkhand and Chattishgarh, which would mitigate the above risk to some extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company

UMSL Limited (formerly Utkal Manufacturing & Services Limited), incorporated in 1991, was initially involved in providing specialised logistics solutions to various companies. Since the de-merger of the ferro-alloys division during FY2010, the company has also diversified into the construction segment, which has been contributing to a large share of revenues over the past few years.

During FY2018, the company reported a profit after tax (PAT) of Rs. 47.60 crore on an operating income (OI) of Rs. 409.10 crore against a PAT of Rs. 16.6 crore on an OI of Rs. 304.3 crore during FY2017.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	304.3	409.1
PAT (Rs. crore)	16.6	47.6
OPBDIT/ OI (%)	13.3%	9.5%
RoCE (%)	14.4%	22.8%
Total Debt/ TNW (times)	0.6	0.4
Total Debt/ OPBDIT (times)	2.6	2.5
Interest coverage (times)	3.4	2.8
NWC/ OI (%)	19%	17%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (March 31, 2018) (Rs Crore)	Date & Rating October 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 February 2017	Date & Rating in FY2016 December 2015
1	Fund Based Limits	Long Term	120.00	67.82	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Non Fund Based Limits	Long Term	40.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Non Fund Based Limits	Short Term	128.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	120.00	[ICRA]A- (Stable)
NA	Non Fund Based Limits	NA	NA	NA	40.00	[ICRA]A- (Stable)
NA	Non Fund Based Limits	NA	NA	NA	128.00	[ICRA]A2+

Source: UMSL Limited

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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