

United Office Systems Private Limited

January 22, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Long-term Fund-based - Cash Credit	10.00	10.00	[ICRA]BBB+(Stable); Reaffirmed
Long-term Fund-based - Term Loan	2.88	6.02	[ICRA]BBB+(Stable); Reaffirmed
Short-term Fund-based	0.60	0.00	-
Short-term Fund-based [^]	0.00	(2.00)	[ICRA]A2; Reaffirmed
Short-term Non-fund Based	4.00	6.00	[ICRA]A2; Reaffirmed
Long-term/Short-term Unallocated Limits	4.54	-	[ICRA]BBB+(Stable)/[ICRA]A2; Reaffirmed
Total	22.02	22.02	

*Instrument Details are provided in Annexure-1

[^]sublimit under cash credit facility

Rationale

The ratings reaffirmation takes into account United Office Systems Private Limited's (UOSPL's) promoters' extensive experience in the raised access floor business, the company's reputed client base, operational support from its Group concern for marketing and distribution, and limited competition (due to its presence in a niche segment). The ratings continue to favourably factor in UOSPL's healthy financial profile as evidenced from the strong profitability margins, comfortable capital structure and robust debt coverage indicators. ICRA also notes the adequate current, unexecuted order book position (lending near term revenue visibility), the recent capex incurred for manufacturing calcium sulphate panels as well as the proposed capacity expansion. These are expected to drive the revenues and support the profitability in the medium term.

The ratings are, however, constrained by UOSPL's relatively modest scale of operations, high working capital intensity of operations (due to stretched receivables and high inventory levels), and the vulnerability of its profit margins to foreign exchange rate fluctuations and raw material prices, given the fixed-price nature of its contracts.

Outlook: Stable

ICRA expects UOSPL to benefit from the extensive experience of its promoters in the raised access flooring systems and limited competition in the domestic market. The outlook may be revised to Positive if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if any major capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of promoters in access flooring business; operational support from UAFPL - UOSPL is promoted by the Rajkotwala family, who has over two decades of experience in the raised access flooring industry. The company has other Group concerns (United Decorative Solutions (UDS), United Insulation (UI), United New Design & Projects Pvt. Ltd. (UNDPL) and United Access Floors Pvt. Ltd. (UAFPL)), which are in a similar line of business. UAFPL markets, distributes and installs access flooring systems in India and contributes ~25-30% to the total sales of UOSPL.

Healthy financial profile characterised by strong profitability margins, comfortable capital structure and robust debt coverage indicators - The company's financial profile remained healthy despite some weakening in FY2018, as reflected by the healthy profit margins, comfortable capital structure and robust debt coverage indicators. The operating margins remained in the range of 16-26% over the last five years and the net margins in the range of 8-15%. The capital structure remained comfortable with gearing of 0.30 times as on March 31, 2018 (0.41 times as on March 31, 2017), with limited working capital borrowings and high net worth base. The debt coverage indicators also remained robust over the last three and half years, with interest coverage of over 10 times, Total Debt/OPBDIT of below 1 time and NCA/Total Debt of over 60%.

Reputed client base and moderate order book position - The company's customer profile is reputed, comprising various leading companies from the IT, ITeS, oil and gas, and banking sectors. UOSPL's client base is well-diversified with the top five clients contributing ~22% to the total sales in FY2018 (compared to 14% in the previous year). Although, the same increased to ~60% in 7M FY2019, due to one of the high-value projects from Reliance. The company reported an operating income (OI) of Rs. 88.50 crore in H1 FY2019 and had confirmed orders of Rs. 61.6 crore as on December 15, 2018 (to be executed within 1-1.5 years), providing adequate revenue visibility in the near term.

Diversification into calcium sulphate panels to support revenue growth and profitability - The company's capacity utilisation levels have improved over the years, on the back of increased demand from its customers. Further, it has diversified into the manufacturing of high-realisation, high-margin calcium sulphate panels (through capex incurred in FY2018), which is expected to support revenue growth and profitability in the future. The company also plans to incur a capex of ~Rs. 15.00 crore by FY2020 towards capacity expansion (to 3,00,000 panels per month from 1,80,000 panels at present), which will support revenue growth in the medium term.

Limited competition in niche business segment - UOSPL faces little competition in the domestic market due to limited number of raised access floor manufacturers in the country. There is moderate level of competition in the international market from foreign players; however, cost effectiveness of the domestically manufactured panels gives UOSPL an edge in the competition from foreign players to some extent.

Credit challenges

Relatively modest scale of operations - UOSPL registered a modest growth of ~4% with the operating revenues of Rs. 102.51 crore compared to Rs. 98.74 crore in FY2017, due to limited order inflows during the year. The company has recovered in the current fiscal on the back of a few high-value orders and reported revenues of Rs. 88.50 crore in H1 FY2019, as per the provisional estimates. Nonetheless, the scale of operations remains relatively modest at the absolute levels.

High working capital intensity of operations - The working capital intensity of operations (NWC/OI) remained high due to elongated receivables and high inventory levels, and stood at 33% as on March 31, 2018 and September 30, 2018. The company provides a clean credit period of 60-90 days to its customers, though the actual realisation of receivables sometimes takes longer. As on October 31, 2018, the company had Rs. 5.06 crore of debtors outstanding over six months (including Rs. 2.12-crore retention money); however, given the reputed client base, the risk of bad debts remains low.

Vulnerability of profitability to fluctuations in raw material prices given the fixed priced nature of contracts - UOSPL's key raw materials include galvanised iron sheets and special grade steel, the prices of which are volatile in nature and fluctuate in co-relation to the international prices. However, the orders received by the company are generally fixed-price in nature, with no or limited price escalation. Further, the procurement is usually not order-backed, thus exposing the operations to raw material price fluctuations. This was evident in the decline in operating profit margins in FY2018 to 16.07% from 26.03% in FY2017.

Vulnerability of profitability to fluctuations in forex rates - UOSPL's direct exports constituted ~11% of the total sales in FY2018 (~16% in FY2017), while majority of the purchases were domestic. In the absence of any active hedging policy, the profitability remains exposed to adverse fluctuations in the foreign exchange rates to the extent of export revenues.

Liquidity position

UOSPL has annual repayments of Rs. 1.4-1.7 crore over the next three years towards its outstanding term loans of Rs. 9.18 crore as on December 31, 2018. It had cash and liquid investments of Rs. 1.4 crore as on September 30, 2018 (Rs. 4.01 crore as on March 31, 2018). The utilisation of the fund-based working capital limits remained moderate with the average utilisation of 57% from October 2017 to December 2018, providing adequate buffer to the liquidity. The company's fund flows remained positive over the last five fiscals due to the healthy profitability levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

UOSPL, a division of the United Group of Companies, was established as a private limited company on March 21, 2011. It is an ISO 9001, 14001 and 18001 accredited company and an active member of the Indian Green Building Council (IGBC). UOSPL manufactures false flooring panels and accessories used in the service-based industries, such as IT/ITeS, BPO, and banking and financial services, among others. The company's registered office is in Mumbai, and its manufacturing facility is at Umbergaon, Gujarat. The company is promoted by Mr. Moiz Rajkotwala and Mr. Shabbir Rajkotwala, who have experience of over 20 years in this business.

UOSPL's other Group companies include UAFPL, UDS, UI and UNDPL. UAFPL supplies, distributes and installs raised access flooring systems; UDS trades, installs and maintains decorative carpets and accessories; UI is involved in job work of false ceiling insulation, raised access flooring systems and other incidental work; while UNDPL works as a contractor and trader in construction-related businesses.

UOSPL reported a profit after tax (PAT) of Rs. 8.40 crore on an OI of Rs. 102.51 crore in FY2018 compared to the PAT of Rs. 14.86 crore on an OI of Rs. 98.74 crore in FY2017. Further, as per the key provisional financials for H1 FY2019, the company reported an OI of Rs. 88.50 crore and PAT of Rs. 15.05 crore.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Provisional)
Operating Income (Rs. crore)	98.74	102.51	88.50
PAT (Rs. crore)	14.86	8.40	15.05
OPBDIT/ OI (%)	26.03%	16.07%	25.95%
RoCE (%)	42.18%	21.72%	51.68%
Total Debt/ TNW (times)	0.41	0.30	0.47
Total Debt/ OPBDIT (times)	0.71	0.95	0.69
Interest Coverage (times)	23.58	10.69	28.01

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 November 2015	
1 Term Loan	Long Term	6.02	10.50 [^]	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	
2 Cash Credit	Long Term	10.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	
3 Fund Based	Short Term	0.00	-	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	
4 Fund Based ^{^^}	Short Term	(2.00)	-	[ICRA]A2	-	-	-	
5 Non-fund Based	Short Term	6.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3	
6 Unallocated	Long Term/Short Term	0.00	-	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	-	

[^] ICRA has rated the term loans of Rs. 6.02 crore, however the outstanding as on September 30, 2018 is Rs. 10.50 crore

^{^^} sublimit under cash credit facility

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

ISINN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	FY2012	9.00%	FY2019	1.08	[ICRA]BBB+(Stable)
NA	Term Loan-2	Dec-2017	9.00%	Dec-2022	4.94	[ICRA]BBB+(Stable)
NA	Cash Credit	-	-	-	10.00	[ICRA]BBB+(Stable)
NA	Inland Bills Purchase [^]	-	-	-	(2.00)	[ICRA]A2
NA	Bank Guarantee	-	-	-	4.00	[ICRA]A2
NA	Letter of Credit	-	-	-	2.00	[ICRA]A2

[^] sublimit under cash credit facility

Source: UOSPL

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