Uneecops Technologies Limited

September 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	12.80	12.80	[ICRA]BBB- (Stable); Reaffirmed
Short-term Non-fund Based	13.50	13.50	[ICRA]A3; Reaffirmed
Long Term - Unallocated	3.70	3.70	[ICRA]BBB- (Stable); Reaffirmed
Total	**30.00**	**30.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed its long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and short-term rating of [ICRA]A3 (pronounced ICRA A three) on the Rs. 30.00-crore bank facilities of Uneecops Technologies Limited (UTL)[1]. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation takes into account the healthy growth of ~25% in the company's operating income (OI) to Rs. 143.58 crore in FY2018 (on a provisional basis) vis-à-vis previous year driven by healthy order flow from existing as well as new clients. Notwithstanding the improved operating performance, the funding requirements of the company have increased significantly due to which the borrowing level has elevated and expected to remain in similar range. The company has got its working capital limits enhanced in February 2018 and the limits remained ~86% utilised during past fifteen months ended June 2018. The increase in working capital borrowings resulted in slight moderation in gearing levels and debt-coverage indicators.

The ratings continue to take into account the extensive experience of the promoters in selling and marketing of electronic products along with established relationship with various government organisations which have helped the company in attaining regular business orders. The ratings also take into account the diversified product portfolio of UTL by virtue of its association with multiple principals such as Canon, NEC, Wipro Infotech Limited etc. ICRA also takes note of the diversification of the company work orders to install rooftop solar power plants in NCR region which has increased the revenue visibility in the medium term.

However, the ratings are constrained by the modest profitability margins which are inherent in the trading line of business along with UTL's limited bargaining power with respect to its principals as well as customers owing to their bigger size. The agreements have to be renewed on a yearly basis from the suppliers as well the customers side thus risk of non-renewal of agreements remains a critical factor.

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

Outlook: Stable

ICRA believes that UTL will continue to benefit from the extensive experience of the promoters in selling and marketing of electronic products. The outlook may be revised to Positive if consistent growth in revenue and profitability, improved coverage indicators and better working-capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected because of a decline in the profitability, or if a stretch in working-capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Experienced promoters with over two decades years of experience in the IT industry – The day to day management of the company is taken care of by Mr. Peeyush Jain (managing director) who has experience of more than 25 years in selling and marketing of electronic products along with long established relationships with various government organizations which have helped the company in attaining regular business orders.

Diversified revenue stream which decreases the reliance on any particular business segment – The company is engaged in trading of various electronic products. In addition to the trading business, the company also has a rental business wherein it rents out photocopiers to customers on long term contracts. Additionally, the company is also an alliance partner for SAP and is engaged in providing comprehensive solutions to small and medium sized businesses. The company also specialises in providing ERP solutions as well as developing management information systems for schools. The company also diversified into installation of rooftop solar panels. Hence, this diversified product portfolio decreases the reliance of the company on any particular business.

Low counterparty risk as most of the customers are government entities; client concentration risk reduced in FY2018 – The company faces low counterparty risks with majority of the customers including government bodies like Kerala Infrastructure and Technology for Education, Telecommunications Consultants India Limited, Kendriya Vidyalaya, Sarva Shiksha Abhiyan, etc. The top 5 customers contributed to 57% of the total sales in FY2018, reduced from 84% in FY2017.

Comfortable capital structure and debt coverage indicators – UTL's capital structure remained comfortable with debt-equity ratio of 0.82 times in FY2018, although increased as against 0.62 times in the previous year owing to increased working capital borrowings. The coverage indicators of the company have remained comfortable as reflected by OPBDITA/Interest of 3.45 times, Total Debt/OPBDITA of 2.16 times and NCA/Total Debt of 25%, on a provisional basis, as on March 31, 2018.

Credit challenges

Moderate profitability due to lower margins on sales of various OEM products – As majority of the company's sales are through the trading route which typically command lower margins, the profitability of the company remains moderate with operating margin in the range of 6-8% in the last 4-5 years.

Low bargaining power with the suppliers as well as the customers – The company procures the photocopiers machines and software from Canon India and Redington India Limited, respectively and the customer base includes Government bodies. Due to the bigger size of these parties as compared to the entity, the company has low bargaining power with the suppliers as well as the customers.

Fragmented and competitive market – The company operates in a highly fragmented and competitive domestic market which impacts the margins and maintain the pricing pressure.

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

Links to applicable criteria

Corporate Credit Rating Methodology

About the company:

Incorporated in 1996, UTL trades various electronic products which include photocopiers, printers, projectors, laptops, desktops, smart class projects equipment etc. In addition to the trading business, the company also has a rental business wherein it rents out photocopiers to customers on long term contracts. Additionally, the company is also an alliance partner for SAP and is engaged in providing comprehensive solutions to small and medium sized businesses. The company also specialises in providing ERP solutions as well as developing management information systems for schools. The company has also diversified its business services through installation of rooftop solar panels.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 3.43 crore on an OI of Rs. 143.58 crore compared with a net profit of Rs. 2.36 crore on an OI of 114.93 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017	FY2018^
Operating Income (Rs. crore)	112.32	114.93	143.58
PAT (Rs. crore)	2.27	2.36	3.43
OPBDIT/OI (%)	7.72%	7.68%	7.68%
RoCE (%)	17.26%	15.49%	17.77%
Total Debt/TNW (times)	0.58	0.62	0.82
Total Debt/OPBDIT (times)	1.56	1.79	2.16
Interest Coverage (times)	3.37	3.51	3.45

^Provisional financials

Status of non-cooperation with previous CRA: Not applicable

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 as on March 31, 2018 (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 August 2015
1	Cash Credit	Long Term	12.20		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	0.60	**0.00**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	3.70		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
4	Non-fund Based	Short Term	13.50		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

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	Cash Credit	NA	NA	NA	12.20	[ICRA]BBB- (Stable)
NA	Term Loan	FY2013	NA	FY2018	0.60	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	3.70	[ICRA]BBB- (Stable)
NA	Non-fund Based	NA	NA	NA	13.50	[ICRA]A3

Source: UTL

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Amit Arora
+0124-4545 318
amita@icraindia.com

Manish Ballabh
+0124-4545 812
manish.ballabh@icraindia.com

Prerna Aggarwal
+0124- 4545 891
prerna.aggarwal@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:

+91-124-2866928 (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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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