June 30, 2020

Uneecops Technologies Limited: Ratings reaffirmed; outlook on long-term rating revised to Negative from Stable; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based CC	18.00	18.00	[ICRA]BBB- (Negative); Rating reaffirmed, and outlook revised to Negative from Stable
Short-term Non-fund Based	23.40	30.40	[ICRA]A3; reaffirmed
Total	**41.40**	**48.40**	

**Instrument details are provided in Annexure-1*

Rationale

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's opinion that Uneecops Technologies Limited's (UTL) performance in the near term is likely to remain subdued due to a challenging economic environment on account of Covid-19, which may lead to a decline in its revenues and profitability. ICRA also notes the company's high receivable level, which exerts pressure on its liquidity position, and high utilisation of bank limits. UTL's limited bargaining power with its principals as well as customers owing to their bigger size and intense competition also constrains the rating. Further, the ratings are constrained by the modest profitability margins and working capital-intensive nature of operations. Nonetheless, UTL's capital structure remains comfortable and its debt coverage indicators remain satisfactory.

The reaffirmation of ratings continues to take into account the extensive experience of the promoters in the information technology sector, order executions for Government organisations and repeat business orders. Further, the company faces low counterparty risks with the majority of customers being Government bodies. The ratings also take into account the diversified product portfolio of UTL by virtue of its association with multiple principals such as Canon India Private Limited, BenQ Corporation, etc. ICRA also notes the diversification of the company's work orders for EPC of rooftop solar power plants installation, which has increased the medium-term revenue visibility.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in IT industry – The day-to-day management of the company is taken care of by Mr. Peeyush Jain (Managing Director), who has over two decades of experience in selling and marketing electronic products to various Government organisations and attaining repeat business orders.

Diversified revenue stream – The company is involved in trading of various electronic products. In addition to the trading business, it rents out photocopiers to customers on long-term contracts. Additionally, UTL specialises in providing ERP solutions as well as developing management information systems for schools. It 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 customers are Government entities – The company faces low counterparty risks with the majority of customers, including Government bodies like The Surveyor General of India, Telecommunications Consultants India Limited, Delhi Police, National Informatics Centre Service Inc., etc. The top five customers contributed to 63% of the total sales in FY2020 (similar to FY2019).

Comfortable capital structure and debt coverage indicators – UTL's capital structure remained comfortable with debt-equity ratio of 0.5 times in FY2020 against 0.7 times in FY2019. The coverage indicators of the company remained comfortable as reflected by OPBDITA/Interest of 4.1 times, Total Debt/OPBDITA of 1.9 times and NCA/Total Debt of 32%, on a provisional basis, as on March 31, 2020.

Credit challenges

Impact of Covid-19 pandemic likely to affect near-term revenues and margins – The Covid-19 pandemic has led to slowdown in the economy. It is expected to result in order flow disruption through delayed offtake of new projects and the same is expected to put pressures on its revenues and profitability.

Margins remain low and rangebound – As the majority of the company's sales are through the trading route, which typically commands lower margins, its profitability remains moderate with net profit margin in the range of 2–4% in the last four to five years. Further, the company's low bargaining power restricts the profit margins as customers include Government bodies and suppliers include major OEMs.

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

Working capital-intensive nature of business entailing high utilisation of bank limits – The working capital intensity of the company remains high owing to stretched debtors resulting in working capital requirement. Further, it has to provide earnest money deposits (EMDs) for bidding projects. Once the contract is awarded, UTL needs to submit a performance bank guarantee. In addition, the Government departments retain ~5–10% of every bill raised as retention money, which is released in three to five years on case-to-case basis after the deflect liability period (DLP). Hence, the requirement of non-fund based (NFB) facilities also remain high.

Liquidity position: Stretched

UTL's liquidity position is **stretched** due to limited cushion in cash credit and bank guarantee limit and intensely working-capital nature of the business. Further, some moderation in the company's cash flows is expected on account of the Covid-19 pandemic over the near to medium term. The company has availed Covid-19 loan amounting to Rs. 1.8 crore; however, no moratorium has been availed.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade in the near term is less likely. ICRA could revise the outlook to Stable if there is improvement in liquidity marked by reduction in debtor days.

Negative triggers – Material decline in revenues or cash flows or stretch in the working capital cycle will be credit negatives. Furthermore, decline in interest coverage below 3 times, on a sustained basis, may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1996, UTL trades various electronic products like photocopiers, printers, projectors, smart class projects equipment, etc. In addition to the trading business, the company rents out photocopiers to customers on long-term contracts. It also specialises in providing ERP solutions as well as developing management information systems for schools. Additionally, it provides comprehensive solutions to small- and medium-sized businesses. It has also diversified its business services through installation of rooftop solar panels.

Key financial indicators

	FY2018	FY2019	FY2020^
Operating Income (Rs. crore)	144.6	151.6	155.4
PAT (Rs. crore)	3.6	4.5	5.6
OPBDIT/OI (%)	7.4%	7.3%	6.7%
RoCE (%)	18.5%	17.5%	17.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.0	1.5
Total Debt/OPBDITA (times)	1.9	2.0	1.9
Interest Coverage (times)	3.8	5.0	4.1
DSCR	3.2	3.6	2.0

^provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					30-Jun-2020	19-Sep-2019	27-Sep-2018	6-Sep-2018	10-Aug-2017
1	Cash Credit	Long Term	18.00		[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Non-fund Based	Short Term	30.40		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

Amount in Rs. crore

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	18.00	[ICRA]BBB- (Negative)
NA	Non-fund Based	NA	NA	NA	30.40	[ICRA]A3

Source: UTL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K Ravichandran
+044 4596 4301
ravichandran@icraindia.com

Vipin Jindal
+0124 4545 355
vipin.jindal@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:

+91-9354738909 (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) 2556 0194/ 6606 9999