

August 25, 2020

Ultra Dimensions Private Limited: Ratings upgraded to [ICRA]BB+/A4+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based	3.57	6.00	[ICRA]BB+ upgraded from [ICRA]BB; Outlook revised to Stable from Positive
Term Loan	4.89	7.82	[ICRA]BB+ upgraded from [ICRA]BB; Outlook revised to Stable from Positive
Non-fund Based – Bank Guarantee	49.00	49.00	[ICRA]A4+ upgraded from [ICRA]A4
Unallocated	42.54	37.18	[ICRA]BB+ upgraded from [ICRA]BB; Outlook revised to Stable from Positive
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade factor in the Ultra Dimensions Private Limited's (UDPL) significant revenue growth of ~58% to Rs. 96.50 crore in FY2020 from Rs. 61.14 crore in FY2019 on the back of timely execution of orders and healthy unexecuted order book of Rs. 176.04 crore as on June 30, 2020, which is 1.82 times of FY2020 revenues, providing revenue visibility. The ratings factor in its comfortable capital structure with TD/TNW of 0.27 times as on March 31, 2020 and comfortable coverage indicators as reflected by interest coverage of 5.13 times, Total Debt/OPBITDA of 0.50 times and NCA/Total Debt of 170%. The ratings consider the company's significant expertise in fabrication and ship repair works and its established relationship with its clients, namely, Shipbuilding Centre (SBC), Naval Dockyard Visakhapatnam (NDV), Defence Machinery Development Establishment (DMDE), etc, as reflected in recurring orders over the years.

However, the ratings are constrained by the company's moderate scale of operations, high order book concentration with top three orders contributing to ~85% of its unexecuted order book as on June 30, 2020 and high customer concentration with the top customer accounting for ~67% of its total revenues in FY2020. Moreover, given UDPL's high unexecuted order book and expected orders in the near term, its ability to secure enhancement in non-fund-based limits remains critical for timely execution of order and its future growth plans. The ratings consider the slowdown in order execution owing to the novel coronavirus (Covid-19) pandemic, impacting revenues in FY2021. The ratings consider intense competition in the industry and tender-based contract awarding system, which keep its margins under check.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's opinion that UDPL is expected to maintain its profitability levels, debt metrics and liquidity position.

Key rating drivers and their description

Credit strengths

Established track record and relationships with customers ensure repeat orders – The promoters have significant experience of more than a decade in fabrication, ship repairs and other engineering works. The company's management includes retired naval personnel with rich technical and operational experience in the naval and maritime sector. UDPL has established relationships with its reputed customers resulting in repeat orders over the years. The company executed engineering works for the Indian Navy, the Indian Coast Guard, Hindustan Shipyard Limited, DMDE, Mazagon Dock Limited (MDL), etc, in the past and at present has orders from SBC, NDV, Material Organisation (MO), etc.

Healthy revenue growth and order book position – UDPL witnessed significant revenue growth of ~58% to Rs. 96.50 crore in FY2020 from Rs. 61.14 crore in FY2019 on the back of healthy order book and timely order execution. Further, the company has an unexecuted order book of Rs. 176.04 crore as on June 30, 2020, translating to 1.82 times of FY2020 revenue, providing near-term revenue visibility. The orders mainly consist of fabrication works, ship repairs and other engineering works for various naval and maritime customers. It has been awarded projects worth Rs. 61.66 crore and 6.86 crore in FY2020 and Q1 FY2021, respectively, mainly from SBC and other projects associated with the Indian Navy. However, ICRA notes that the execution of key orders in Mumbai and Goa have been impacted in the current year by the Covid-19 pandemic.

Comfortable financial risk profile – Healthy accretion to reserves over the last two years, coupled with low debt levels, resulted in improved capital structure with a gearing of 0.27 times as on March 31, 2020. The coverage indicators remained comfortable as reflected by interest coverage of 5.13 times, Total Debt/OPBITDA of 0.50 times and NCA/Total Debt of 170% in FY2020.

Credit challenges

Moderate scale of operations – Despite growth in revenues over the last two years, UDPL continues to have a moderate scale of operations with revenues of Rs. 96.50 crore in FY2020, limiting its financial flexibility. However, this is expected to improve in the medium term with timely order execution and expected order inflow.

High order book concentration – The company faces high project concentration risk with the top three orders accounting for ~85% of its outstanding order book as on June 30, 2020 and any slowdown in project execution may result in lower billing. Most of its revenues over the last three years were contributed by projects awarded by SBC, Vizag, which accounted for ~67% of its revenues in FY2020. However, concentration reduced in FY2020 as SBC, Vizag accounted for 86% of revenues in FY2019.

High NFB limit requirements in the medium term given the large order book – With significant unexecuted order book as on June 30, 2020 and additional orders expected in the medium term, the company has high NFB limit requirement to meet its performance guarantee obligations. The ability to secure enhancement in NFB limits remains critical to secure new orders and aid UDPL's future growth plans.

Probable risks of slowdown in order execution owing to Covid-19 pandemic – The slowdown in order execution owing to disruptions caused by the Covid-19 pandemic impacted the company's revenues in the current year. Sustained disruption leading to significant delays in order execution will adversely affect its revenues in FY2021.

Exposed to intense competition in industry – The highly fragmented nature of the defence engineering industry, with the presence of several large and small-scale players, leads to intense competition in the bidding process, limiting the company’s profit margins to an extent.

Liquidity position: Adequate

The company’s liquidity position is **adequate** with healthy unencumbered cash balances of Rs. 10.85 crore as on June 30, 2020. Despite capital expenditure of Rs. 12.00 crore and repayment obligations of Rs. 1.96 crore in FY2021, its liquidity is likely to be supported by retained cash flows of ~Rs. 15-16 crore and undrawn long-term debt of Rs. 3.80 crore. However, timely enhancement of non-fund based limits remains critical for UDPL’s growth to meet its PG requirements for expected orders in the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade UDPL’s rating if there is a sustained improvement in the company’s scale of operations supported by order inflow while maintaining its profitability, along with improvement in its customer concentration.

Negative triggers – Negative pressure on UDPL’s rating could arise if delay in order execution results in significant decline in accruals or profitability, or stretch in working capital cycle or higher investments in subsidiaries impacts the company’s liquidity position. Specific credit metrics that could lead to revision of outlook on UDPL’s rating include interest coverage less than 2.8 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company

UDPL, promoted by Mr. L. G. Trinadha Rao and his wife Mrs. L. Navya in 2008, is headquartered in Visakhapatnam and undertakes contract works for manufacturing titanium valves, fabrication of pipers, ship repair works and other engineering works on a turnkey basis. It has branch offices at Hyderabad and Port Blair (Andaman and Nicobar Islands). The workshop at Hyderabad undertakes manufacturing of its key product - titanium valves, while Port Blair office undertakes repair works for ships.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	61.14	96.50
PAT (Rs. crore)	4.04	12.10#
OPBDIT/ OI (%)	14.86%	15.37%
RoCE (%)	32.09%	56.19%
Total Debt/ TNW (times)	0.48	0.27
Total Debt/ OPBDIT (times)	0.95	0.50
Interest Coverage (times)	2.87	5.13

*Provisional financials #Profit before Tax (PBT)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2021)					Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	
				25-Aug-2020	05-Nov-2019	16-May-2019	22-Mar-2019	05-April-2018		
1	Fund Based	Long Term	6.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Positive)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	-
2	Term Loan	Long Term	7.82	7.82	[ICRA]BB+ (Stable)	[ICRA]BB (Positive)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
3	Non-fund Based	Short Term	49.00	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	-
4	Unallocated	Long Term	37.18	-	[ICRA]BB+ (Stable)	[ICRA]BB (Positive)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	-

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	NA	NA	NA	6.00	[ICRA]BB+ (Stable)
NA	Term Loan – 1	2017	NA	2032	4.63	[ICRA]BB+ (Stable)
NA	Term Loan - 2	2020	NA	2026	2.26	[ICRA]BB+ (Stable)
NA	Term Loan - 3	2020	NA	2024	0.93	[ICRA]BB+ (Stable)
NA	Non-fund Based	NA	NA	NA	49.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	37.18	[ICRA]BB+ (Stable)

Source: Ultra Dimensions Private Limited

ANALYST CONTACTS

K. Ravichandran
+91-44-45964301
ravichandran@icraindia.com

R Srinivasan
+91-44-45964315
r.srinivasan@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Sai Kireeti S K
+91 40 4067 6530
sai.thirumala@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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents