



## Press Release

### UTTAMENERGY LIMITED (UEL)

June 22, 2020

Sl. No.	Instrument/Facility	Amount (INR Crores)	Rating Assigned	Rating Action
1.	Long Term Facility – Fund Based – Cash Credit	20.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
2.	Short Term Facility – Non Fund Based - Bank Guarantee <sup>1</sup>	15.00	IVR A3+ (IVR A Three Plus)	Assigned
3.	Short Term Facility – Non Fund Based - Bank Guarantee <sup>2</sup>	33.00	IVR A3+ (IVR A Three Plus)	Assigned
4.	Short Term Facility – Non Fund Based – Letter of Credit	15.00	IVR A3+ (IVR A Three Plus)	Assigned
	<b>Total</b>	<b>83.00</b>		

#### Ratings

1 – Performance guarantee, 2 – Financial guarantee

#### **Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The aforesaid rating assigned to the bank facilities derives comfort from their diverse product and services portfolio with a global presence, access to superior technology benefitting from international collaboration, steady revenue growth, reputed clientele and a moderate order book, improving working capital efficiency and conservative capital structure with healthy coverage indicators. However, the rating strengths are partially offset by volatile margins, exposure of cyclical nature of end-user industries and raw material price fluctuation and country specific risks.



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### ***Key Rating Sensitivities***

#### ***Upward factors:***

- TOL/TNW remaining sustained below 2x along with substantial improvement in revenue while maintaining the EBITDA margin.

#### ***Downward factors:***

- TOL/TNW remaining above 3x on a sustained basis and/or any decline in revenue and EBITDA margin.

### ***Key Rating Drivers with detailed description***

#### ***Key Rating Strengths***

##### ***Diverse product and services portfolio with a global presence***

UEL has a diverse product and services portfolio. Their products include Biomass Fired Steam Boilers, Palm Waste/Napier Grass Boilers, Incineration Boilers and Bagasse Dryers. They also provide services such as prefeasibility and project report, complete power plant engineering, project management consulting, power plant pipe design and analysis, energy auditing and efficiency improvements and specialised services such as capacity enhancement and efficiency improvement for steam boilers, conversion of coal boilers to biomass fired boilers, remote performance monitoring systems for boilers. They also provide O&M solutions power plants, sugar plants and ethanol plants. The company also caters to clients in diverse end user industries including power, sugar, engineering, chemicals, petrochemicals, cement and infrastructure.

##### ***Access to superior technology benefitting from international collaboration***

During FY19, UEL entered into a license agreement with Eckrohrkessel GmbH (ERK), based in Germany, to provide steam boiler design solutions on Waste Heat Recovery Boilers (WHRB), exhaust heat recovery boilers, steam boilers capable of handling challenging fuels like municipal waste. ERK are placed among the top global technology providers for boilers and heater systems. The collaboration is likely to enable UEL to have access their engineering and design services. Additionally, the company is exploring opportunities to expand its collaborations, which would lead to further strengthening of their business profile.



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### ***Steady growth in revenues, reputed clientele and a moderate order book***

The company's revenue grew at a CAGR of ~9.97% during FY17-FY20 (provisional) owing to better rates & higher execution. The company has demonstrated strong execution capability in the past two years by successfully completing projects of reputed entities. The company has a moderate order book with unexecuted orders amounting to INR 214.14 crore as on June 2020 beginning which the company is expecting to complete in FY21. Furthermore, the company is expecting orders amounting to INR 305 crore in first half of FY21. UEL has also seen a steady increase in their turnover from overseas market as their exports have increased to 49.81% in FY20 in comparison to 42.34% in FY19.

### ***Improving working capital efficiency***

UEL's working capital requirements are being efficiently managed reflected in its low net working capital cycle of 30-50 days for past two years ended March 31, 2020, owing to stringent collection policies and inventory management. Despite having exposure to large turnkey projects, debtors have remained at less than 120 days in the past 3 years due to tight control on collections and careful bidding for projects with only strong counterparties. The company also receives certain portion of the projects costs as advances from their customers, which helps in liquidity management.

### ***Conservative capital structure with healthy coverage indicators***

The capital structure, as indicated by Total Outside Liabilities / Tangible Net Worth (TNW), stands at a moderate level of 4.02x in FY19 which has improved considerably to 1.86x in FY20 (provisional) due to a reduction in external borrowings coupled with accretion of profit to reserves. The overall gearing was at 0.50x in FY20 (provisional) from 0.60x in FY19. Interest coverage remains at 4.03x in FY20 (FY19: 5.27x).

### ***Key Rating Weaknesses***

#### ***Volatile margins***

The boiler industry is intensely competitive with the presence of large and several small players. The EBITDA margins of the company have remained range bound in the past three fiscals, ranging from 11-15%, the margin has dipped to 11.55% in FY20 (provisional) from 15.32% in FY19 majorly due to volatility in the raw material price. However, company places the major raw material orders at the time of receiving the order itself, which mitigate the price



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fluctuation risk to some extent. In case their projects are kept on hold due to uncertainties from the client's end then the company recovers any increase in costs caused by price fluctuations from the client.

### ***Exposure to cyclicity of end user industries***

The engineering and capital goods industry is highly vulnerable to economic cycles. A weak demand environment and investment sentiment has led to a slump in orders in fiscal 2020. Shutdown of manufacturing operations across India since the last week of March 2020 owing to the COVID-19 outbreak, will also have a bearing on their order execution in the near term. The company management remains positive about their order forecasts as they believe the government has been backing essential sectors which will have an encouraging effect and opening the lockdown in a staggered manner is a positive sign as the economy slowly will returns to its usual ways.

### ***Raw material price fluctuation and country specific risks***

Given that around 50.00% of the company topline came from exports, the company remains exposed to changes in trade policies as well as political and economic scenarios of the countries that it caters to.

### **Analytical Approach & Applicable Criteria**

#### **Standalone Approach**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **Liquidity - Adequate**

Liquidity is adequate, with sufficient GCA as compared to their upcoming repayment obligations. The cash & cash equivalents (Including margin money against BG/LC) was at INR 4.10 crore in FY20. However, current ratio is around unity in FY19 & FY20 due to nature of industry.



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### About the company

UTTAMENERGY LIMITED (UEL) was incorporated in the year 2012, after take-over of LIPI Boilers, which had over 40 years of experience in the field of biomass fired boilers. The plant is located in Pune. The company is ISO 9001 certified.

### Financials (Standalone)\*:

(INR crores)

For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	85.39	146.55	197.86
EBITDA	11.44	22.45	22.86
PAT	3.76	11.92	15.09
Total Debt	31.21	20.66	24.57
Tangible Net-worth	22.52	34.46	49.55
<b>Ratios</b>			
EBITDA Margin (%)	13.40	15.32	11.55
PAT Margin (%)	4.38	8.10	7.50
Overall Gearing Ratio (x)	1.39	0.60	0.50

\* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: N.A.

### Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Facility – Fund Based - Cash Credit	Long Term	20.00	IVR BBB/ Stable Outlook	--	--	--
2.	Short Term Facility – Non Fund Based – BG <sup>1</sup>	Short Term	15.00	IVR A3+	--	--	--
3.	Short Term Facility – Non Fund Based – BG <sup>2</sup>	Short Term	33.00	IVR A3+	--	--	--
4.	Short Term Facility – Non Fund Based - LC	Short Term	15.00	IVR A3+			

1 – Performance guarantee, 2 – Financial guarantee





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**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Cash Credit	NA	NA	Revolving	20.00	IVR BBB/ Stable Outlook
Short Term Facility – Non Fund Based - Bank Guarantee <sup>1</sup>	NA	NA	Less than 1 year	15.00	IVR A3+
Short Term Facility – Non Fund Based - Bank Guarantee <sup>2</sup>	NA	NA	Less than 1 year	33.00	IVR A3+
Short Term Facility – Non Fund Based – Letter of Credit	NA	NA	Up-to 120 days	15.00	IVR A3+

*1 – Performance guarantee 2 – Financial guarantee*