

**Press Release**

**Uralungal Labour Contract Co-operative Society Limited (ULCCS)**

**April 09, 2020**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (INR Crore)</b>	<b>Rating Assigned</b>	<b>Rating Action</b>
2.	Long Term Facility – Fund Based – Cash Credit	697.23	IVR BB+/ Stable outlook (IVR Double B Plus with stable outlook)	Assigned

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The aforesaid rating assigned to the bank facilities of Uralungal Labour Contract Co-operative Society Limited (ULCCS) derives comfort from about a century long vintage of the society, improving revenue trend & EBITDA Margin, reputed clientele, support extended by Kerala Government, sufficient asset base and strong order book reflecting satisfactory medium-term revenue visibility. However, the rating strengths are partially offset by Moderate debt protection metrics, working capital cycle intensive operations and susceptibility of operating margin to volatile input prices.

**Key Rating Sensitivities**

**Upward factors:**

Sustained improvement in revenue while maintaining the EBITDA margin leading to substantial improvement in the debt protection metrics & working capital cycle.

**Downward factors:**

Any decline in revenue and profitability leading to deterioration in the debt protection metrics and/or further elevation of working capital cycle

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

### **Key Rating Strengths**

#### **Vintage of the society**

The Uralungal Labour Contract Cooperative Society Ltd. (ULCCS) is one of the oldest labour contract societies in India. It was started in 1925. In the 95 years of its existence it has developed a reputation of its own by adhering to the strictest standards of quality and time while executing projects. It began with 14 members. The Society provides employment to over 2500 laborers throughout the year, of whom 1616 are its members. The Society has completed over 6500 major projects and is currently implementing over 150 projects.

#### **Improving revenue and EBITDA margins:**

The revenue grew at a CAGR of around 13% in the last three years ending FY19. In FY19, revenue was INR 746.61 Crore (FY18: INR 596.12 Crore). The improvement in the revenue can be attributed to an established and good presence in the regions it operates. The EBITDA margins have shown a steady improvement over the past three years ending FY19. In FY19, EBITDA margins stood at 18.94% (FY18: 13.32%). The improvement in EBITDA margins is due to improving revenue and efficiency in operations leading to curtailing costs.

#### **Reputed clientele**

ULCCS mainly focuses on tenders floated by Kerala government departments/entities and is mainly engaged in agricultural activities, infrastructure and roads construction. Major clients of the Society include National Highway Department for Highway projects, Public Works Department of Govt. of Kerala for State Road Development, Ministry of Panchayat Raj for rural roads under PMGSY Scheme and Local Self Governments and Kerala State Sustainable Urban Development Projects for building rural infrastructure. Furthermore, the society has subsidiary companies that are engaged in building and development of infrastructural parks and providing technology oriented solutions. The society has also expanded its presence in various other sectors namely agriculture, hospitality and health care.

## **Support extended by Kerala Government**

The Kerala State Government has extended support the society in the form of financial support via share capital contribution, loan or subsidy, concessions and preference while awarding public tenders, exemptions from payment of Security Deposit and Earnest Money Deposit and advance payment of up to 20% of the cost of work.

## **Sufficient Asset Base**

The ULCCS has over the years built up a strong asset base and with sizeable asset addition every year. The society has almost all the assets required to execute the current order book.

## **Strong order book reflecting satisfactory medium-term revenue visibility**

ULCCS has a strong unexecuted order book of INR 3244.47 crore as on November 30, 2019. Out of which 32.27% of the orders have been executed and the rest are expected to be completed by FY22, indicating a satisfactory near to medium term revenue visibility.

## **Key Rating Weaknesses**

### **Moderate debt protection metrics:**

ULCCS's capital structure remained moderate in the past three account closing dates ending FY19. The overall gearing ratio was around 2.38x in FY19 (FY18: 1.79x) & TOL/TNW at 6.17x in FY19 (4.69x) driven by increase in debt. Total debt/GCA, interest coverage & other debt protection metrics expected to improve moving forward.

### **Working capital cycle intensive operations:**

The ULCCS's working capital cycle is on a higher side with average debtor days of 406 days and an operating cycle of 532 days. The elongated operating cycle was majorly because of the average debtor days, which stand at 406 days as on FY19 and at 319 days as on FY18.

### **Susceptibility of operating margin to volatile input prices:**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material forms the majority chunk of the total cost of sales for the last three years. As the raw material prices are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices. However, presences of escalation clause in most of the contracts protect the margin to an extent.

**Analytical Approach & Applicable Criteria:**

Standalone Approach

Rating Methodology for Cooperative society

Financial Ratios &amp; Interpretation (Non-financial Sector)

**Liquidity: Stretched**

The current ratio and quick ratio remained at below unity at 0.95x and 0.70x respectively as on March 31, 2019. The society's cash and cash equivalents stood at INR 7.00 Crore on March 31, 2019. The average peak working capital utilization remained at around 90% during the twelve months ended January 2020. The liquidity of the company expected to remain **Stretched** in the near to medium term.

**About the Company/Society**

The Uralungal Labour Contract Cooperative Society Limited is registered as a cooperative society under Act 10 of 1952. The Society No. is 10957. Its registered office is at Madappally College (P.O), Pin 673103, Vadakara T2, Kozhikode (Dt), Kerala State.

**Financials:**

<b>For the year ended/ As On</b>	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>(Audited)</b>	<b>(Audited)</b>
Total Operating Income	596.12	746.61
EBITDA	79.39	141.41
PAT	2.20	3.23
Total Debt	487.23	709.00
Tangible Net-worth	272.64	297.96
<b><u>Ratios</u></b>		
EBITDA Margin (%)	13.32	18.94
PAT Margin (%)	0.36	0.43
Overall Gearing Ratio (x)	1.79	2.38

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: NA****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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-18	Date(s) & Rating(s) assigned in 2018-17	Date(s) & Rating(s) assigned in 2017-16
1.	Long Term Facility – Fund Based - Cash Credit	Long Term	697.23	IVR BB+/ Stable outlook (IVR Double B Plus with stable outlook)	--	--	--

**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**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (INR Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Facility – Fund Based - Cash Credit	NA	NA	Revolving	697.23	IVR BB+/ Stable outlook (IVR Double B Plus with stable outlook)