



## Press Release

### Uttamenergy Limited (UEL)

**September 09, 2021**

#### **Ratings**

<b>Instrument / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Current Ratings</b>	<b>Previous Ratings</b>	<b>Rating Action</b>
Long Term Bank Facilities	20.00	IVR BBB/ Credit Watch with Developing Implication  (IVR Triple B under credit watch with developing implication)	IVR BBB/ Stable  (IVR Triple B with Stable Outlook)	Rating placed on Credit Watch with Developing Implication
Short Term Bank Facilities	63.00	IVR A3+/ Credit Watch with Developing Implication  (IVR A Three Plus under Credit Watch with Developing Implication)	IVR A3+  (IVR A Three Plus)	Rating placed on Credit Watch with Developing Implication
<b>Total</b>	<b>83.00 (Eighty-Three Crore)</b>			

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

#### **Detailed Rationale**

UEL's rating has been placed under Credit Watch with Developing Implications on account of COVID-19 impact on the business and financial performance in FY2021 (Provisionals). However, company has healthy order book considering that Infomerics shall monitor the performance of the company to assess the overall impact on the credit matrices going forward.

The aforesaid ratings assigned to the bank facilities of Uttamenergy Limited (UEL) continues to derive comfort from its Diverse product and services portfolio, Access to superior technology benefitting from international collaborations, Conservative capital structure with high coverage indicators and moderately diversified logistics network. However, these rating strengths remain constrained by Modest scale of operations and volatile margins, Exposure to cyclicity of end user industries and Raw material price fluctuation.



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### **Key Rating Sensitivities:**

#### **Upward Factor:**

- Substantial improvement in revenue while maintaining the EBITDA margin.
- Improvement in TOL/TNW on a sustained basis.

#### **Downward Factor:**

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

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### **Diverse product and services portfolio**

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 to 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 collaborations**

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



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and design services located in Berlin at their fingertips. Additionally, the company is exploring opportunities to expand its collaborations, increase in which would lead to further strengthening of their business profile.

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

The company's debt profile mainly comprises of short term borrowings; off the total debt amounting to INR 22.03 crore in FY21 (Provisional) – INR 12.90 crore amounts to short term borrowings and INR 9.13 crore pertains largely towards long term loans taken for the purpose of purchase of premises; the total debt has reduced to INR 22.03 crore in FY21 (provisional) from INR 24.48 crore in FY20. which has caused an improvement in gearing ratio to 0.47x in FY21 (provisional) from 0.58x in FY20. The capital structure, as indicated by Total Outside Liabilities / Tangible Net Worth (TNW), stands at a moderate level of 2.27x in FY20 which has reduced to 2.17x in FY21 (provisional) due to a reduction in external borrowings & higher amount of accretion to reserves. The interest coverage ratio remains strong at 3.45x in FY21.

### **Moderately diversified logistics network**

The company has a good supplier network. Its top ten suppliers constitute around 49% of its total raw material purchases which indicates a moderate supplier concentration. Further, majority of its suppliers are located in its close vicinity within the bounds of the states that they operate in; which helps the company to save on logistics and prevent any supply chain disruptions. The suppliers being in close vicinity is advantageous to the company as it helps in avoiding bottlenecks and creates operational efficiencies. Moreover, the company has a policy of procuring raw materials for the first time at the time of obtaining the orders as this enables them fixated on the prices and also giving them additional discounts on bulk purchase.

### **Key Rating Weaknesses**

#### **Modest scale of operations and volatile margins**

The boiler industry is intensely competitive with the presence of large players catering to vast clientele and several small players. The moderate scale of operations limits the company's bargaining power with their customers. The EBITDA margins of the company have remained range bound in the past three fiscals, ranging from 10-13%, the margin has increased to 13.49% in FY21 (provisional) from 10.35% in FY20, the company operates with two streams



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of revenues one from selling products and the other from providing services; the margins are affected due to differences in realisation dates.

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

The engineering and capital goods industry is highly vulnerable to economic cycles. Consequently, UEL has witnessed periodic slowdowns in revenue growth due to delays in capex by customers. Further, shut down of the manufacturing operations across India since the last week of March 2020 owing to the COVID-19 outbreak, has impacted revenues. The company management remains positive about their order forecasts as the economy is recovering from the pandemic.

### **Raw material price fluctuation**

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods. However, company places the major raw material orders at the time of receiving the order itself, which mitigate the price 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.

### **Analytical Approach: Standalone**

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity - Adequate**

Liquidity is adequate, with GCA of INR 9.77 crore as compared to their debt obligations amounting to INR 4.32 (including CPLTD + Interest). The company has a sufficient cash & bank balance of INR 5.77 crore to cushion any further short term payment requirements. The average utilisation stood at ~54% for fund based facilities during the 12 months ended May 31, 2021 indicating adequate liquidity position for the company.



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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 Aurangabad. The company is ISO 9001 certified and therefore offers the highest quality standards, most technological advanced products and the reliable solutions for sugar plants, ethanol plants, co-generation plants, captive power plants, biomass based independent power plants, waste to energy plants, as well as equipment and services for sugar, distilleries, energy and power.

### **Financials (Standalone)**

For the year ended* As on	INR in Crore	
	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	194.83	101.72
EBITDA	20.17	13.73
PAT	13.67	7.51
Total Debt	24.48	22.03
Tangible Net Worth	42.50	46.88
EBITDA Margin (%)	10.35	13.49
PAT Margin (%)	6.85	7.20
Overall Gearing Ratio (x)	0.58	0.47

\* Classification as per Infomerics' standards

**Details of Non-Co-operation with any other CRA: Nil**

**Any other information: N.A.**

**Rating History for last three years:**



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Dated: June 22, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Facility – Cash Credit	Long Term	20.00	IVR BBB/ Credit watch with developing implication	IVR BBB/ Stable	-	-
2.	Non-Fund Based Facility – BG*	Short Term	15.00	IVR A3+ Credit watch with developing implication	IVR A3+	-	-
3.	Non-Fund Based Facility – BG**	Short Term	33.00	IVR A3+ Credit watch with developing implication	IVR A3+	-	-
4.	Non-Fund Based Facility – LC	Short Term	15.00	IVR A3+ Credit watch with developing implication	IVR A3+	-	-

\*Performance Guarantee, \*\*Financial Guarantee

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for





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positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	-	-	-	20.00	IVR BBB/ Credit watch with developing implication
Short Term Non-Fund Based Facility – BG*	-	-	-	15.00	IVR A3+ Credit watch with developing implication
Short Term Non-Fund Based Facility – BG**	-	-	-	33.00	IVR A3+ Credit watch with developing implication
Short Term Non-Fund Based Facility – LC	-	-	-	15.00	IVR A3+ Credit watch with developing implication

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-uttamenergy-9-9-21.pdf>



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**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Working capital (CC)	Simple
2.	Letter of Credit	Simple
3.	Bank Guarantee	Simple

**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).