UAL Industries Limited

November 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	55.00	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	80.00	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of UAL Industries Limited (UAL) takes note of stable scale of operations in FY24 (refers to period from April 01 to March 31) despite moderation in profitability margins. CARE Ratings Limited (CARE Ratings) anticipates improvement in operating profitability margins in current fiscal due to savings deriving from lower shipping costs and downward revision in annual procurement price of asbestos as articulated by the management. Ratings continue to derive strength from the promoters' experience with satisfactory track record of operations, strategic location of the manufacturing plants, established market position of the company in Eastern India, strong capital structure and debt coverage indicators, and robust liquidity position of the company marked by free cash and liquid investments of over ₹500 crore as on March 31, 2024.

The rating strengths are tempered by the risk associated with raw materials and finished goods price volatility, foreign exchange fluctuations risk, major dependence on rural demand for asbestos cement corrugated (ACC) sheets despite lack of cost-effective substitute, regulatory and environmental issues surrounding asbestos, and moderate demand of autoclaved aerated concrete (AAC) blocks in the construction sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Diversification with minimum 25% revenue derived from other profitable businesses leading to growth in scale of operations with blended profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 18% on a sustained basis.

Negative Factors

- Declining total operating income (TOI) below ₹500 crore and moderating PBILDT margin below 10% on a sustained basis.
- Venturing into debt laden capital expenditure leading to deterioration in net gearing level above 0.00x (net gearing being calculated after reduction of free cash and liquid investments from total debt) on a sustained basis.
- Any adverse impact on the business and consequently liquidity profile due to changes in regulation with respect to usage of asbestos fibre.
- Non-maintenance of free cash and liquid investments above ₹250 crore on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook is based on the company's ability to continue to derive benefits from established market position in the industry and long track record of operations, and thus, sustain its business and financial risk profiles in view of low reliance on debt and robust liquidity position.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with satisfactory track record

UAL has a satisfactory track record of over four decades in manufacturing ACC sheets. The company is promoted by A. K. Saraf. The promoters have long and varied experience in this industry. UAL's business operations have benefited from promoter's long-established track record in businesses and the vast industry network developed over the years. This has enabled the company to expand its scale of operation. A. K. Saraf (Chairman & Managing Director) is ably supported by a team of experienced and capable professionals with considerable experience in the segment to look after the day-to-day operations.

Strategic location of the manufacturing plants

The manufacturing facilities of UAL at Dhenkanal (Odisha), Midnapore (West Bengal), and Jaunpur (Uttar Pradesh) are strategically located in vicinity of rural market. Haldia and Paradeep ports are located in vicinity of the company's West Bengal &

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Odisha units, which enables easy transportation of imported raw materials. Also, the new AAC plant situated at Bagnan is only 80 km from Kolkata.

Established market position in eastern India

UAL is one of the leading ACC sheets manufacturers in India and an established player in eastern India. The company has a dedicated marketing department based in Kolkata. This apart, it has its own depots at various locations and also has a wide network of exclusive dealers and consignment agents in various areas of eastern India and in U.P., Bihar, Jharkhand, and Odisha. CARE Ratings observes, going forward, UAL's established product quality and brand name (KONARK) and its strong distribution network is expected to help in achieving stable volumes.

Strong capital structure and healthy debt coverage indicators

The capital structure continued to remain strong with overall gearing of 0.07x as on March 31, 2024 (0.09x as on March 31, 2023). Total debt to gross cash accruals (TDGCA) has remained stable at 0.89x in FY24 against 0.84x in FY23. The company had 'nil' net debt after considering the cash and liquid investments of ~₹502 crore as on March 31, 2024.
CARE Ratings observes, the company's capital structure is expected to remain at similar levels in the near to midterm in absence of major capital expansion plans.

Key weaknesses

Stable financial performance despite declining profitability margins

In FY24, the company's TOI remained stable and stood at ₹602.14 crore against ₹638.99 crore in FY23 considering decline of ~9% in sales volume and stable sales realisation of ACC sheets in FY24. However, the sales volume of AAC blocks has shown improvement of ~3% in FY24 despite moderation in sales realisation.
There has been a declining trend in operating margins in the last three years considering increase in raw material prices (mainly asbestos fibre and cement) amidst adverse geopolitical conditions post Russia-Ukraine war and rise in shipping costs which could not be completely passed on to the customers. The PBILDT margin stood at 8.37% in FY24 against 12.85% in FY23.
In H1FY25, the company reported PBILDT of ₹34.87 crore on TOI of ₹363.77 crore.
CARE Ratings notes that the management expects improvement in operating profitability margins FY25 onwards on downward revision in annual procurement price of asbestos fibre and savings in shipping costs.

Risk associated with raw materials and finished goods price volatility and foreign exchange fluctuations

Raw material consumption cost is the largest cost element constituting for ~64% of the total cost of sales in FY24 (59% in FY23). The raw materials required by the company include asbestos fibre, ordinary portland cement (OPC), dry fly ash, cotton rag pulp, and lime, among others, with asbestos and OPC being the major raw materials in terms of value. UAL is exposed to price volatility risk as asbestos fibre price is volatile in nature and majorly controlled by few producing countries, since mining of asbestos is banned in most developed countries. India imports almost all of its asbestos fibre requirements from Russia, Brazil, and Kazakhstan, which together produce ~90% of the world's asbestos fibre and the limited supply of raw material results in volatility in prices thereof. UAL imports asbestos fibre from Brazil, Russia, and Kazakhstan and has to procure raw materials at significantly higher volume to bargain discount from suppliers. UAL has faced dip in its profitability margins considering increase in raw material cost of asbestos fibre due to ongoing Russia – Ukraine, war which has resulted in supply chain disruption. The raw material had to be re-routed through other countries resulting in increase in shipping costs. Although UAL did not face shortage of raw material, the same increased in terms of cost, all of which could not be passed on to the customers, which resulted in dip in margin. However, as articulated by the management, the company is in talks with its key vendor for one-time substantial discount on bulk purchases of asbestos fibre which is expected to improve its profitability margins.
Moreover, the company expects improvement in profitability margins on easing on prices of asbestos fibre in current fiscal.
The company imports a considerable part of total raw material consumed, while its sales are 100% domestic, which exposes the company to forex fluctuation risk. In FY24, UAL reported forex loss of ₹0.78 crore against loss of ₹2.91 crore in FY23.

Major dependence on rural demand for ACC sheets despite lack of cost-effective substitute

ACC sheets are primarily used as roofing material in rural areas in housing, warehousing, poultry and hatcheries segment. Almost 100% of UAL's business is restricted to rural areas. The demand for ACC sheets depends significantly on the monsoon level. With improved monsoon, the demand improves and vice versa. Although substitutes to ACC sheets are available in the form of metal sheets, the substitutes are less durable and expensive by ~20-25% compared to the products sold by the company. Since ACC sheets are mainly used in rural areas, the price difference of 20-25% with its substitutes inhibits end users to switch to substitute products.

Regulatory and environmental issue surrounding asbestos

Asbestos fibre being hazardous in nature, its mining is banned in India. However, the use of asbestos is permitted in related products, though it has been a matter of litigation in the past with the court's ruling in favour of the ACC industry. However, due to ban on asbestos mining, Indian players depend on the asbestos exporting nations, including Russia, China, Kazakhstan, and Brazil, among others. UAL primarily sources its asbestos primarily from Brazil, Russia, and Kazakhstan.
Any regulations against the mining or trading of asbestos in the current major exporting nations can make operations of the Indian players including UAL vulnerable. UAL is operating its units, complying with set rules and regulations.
Nevertheless, the company mainly uses chrysotile (white asbestos) in place of the banned carcinogenic blue fibre which accounts for ~95% of global asbestos production, and import of the same currently does not face restriction. UAL has also installed

automatic fibre handling system to absorb dust particles generated in the production process. Routine checks are also carried out to avoid emissions. The entire production process is automated to avoid direct contact of workers from hazardous materials and to improve quality of the final product.

Moderate demand of AAC blocks in the construction sector
AAC block is an eco-friendly substitute of red clay bricks used in the construction of residential, industrial, and commercial structures. Considering the demand of bricks in the construction sector, easy availability of fly ash and benefits derived from using AAC blocks instead of traditional clay bricks, the popularity of AAC, the industry has a huge potential going forward. UAL has demonstrated an upward trend in the AAC block sales over the years. In the current year, the management expects moderation in revenue from AAC block segment owing to rising competition from newly established players in the vicinity.

Liquidity: Strong
Liquidity position of the company is strong with GCA of ₹69.11 crore against debt repayment obligation of ₹2.59 crore in FY24. The company has negligible debt repayment obligation in FY25. The average fund-based working capital utilisation of the company stood nil in the last 12 months ending October 2024. This apart, UAL had free cash and liquid investments in mutual funds, equity shares, and fixed deposits amounting to ~₹502 crore as on March 31, 2024, which further strengthens the liquidity position of the company.
Going forward, on the back of steady GCA and no major capex plans, CARE Ratings expects that the company's liquidity will remain strong in near to medium term.

Environment, social, and governance (ESG) risks- Not applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

UAL was incorporated in November 1974 as Utkal Asbestos Private Limited and is currently under the ownership of A. K. Saraf and his family. The company is engaged in manufacturing ACC Sheet/ fibre cement roofing sheets (capacity 650,000 MTPA) used in low-cost housing, warehouses and factories and AAC blocks (capacity 270,000 cu. metres per annum). UAL markets its products under the brand of 'Konark' and 'Koncrete'. A.K. Saraf, Managing Director, is actively involved in the day-to-day affairs of the company.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	638.99	602.14	363.77
PBILDT	82.07	50.39	34.87
PAT	51.68	105.41	NA
Overall gearing (times)	0.09	0.07	NA
Interest coverage (times)	17.95	8.18	NA

A: Audited, UA: Unaudited, NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	55.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	80.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	55.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Nov-23)	1)CARE A+; Stable (03-Feb-23)	1)CARE A+; Positive (07-Dec-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	80.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (08-Nov-23)	1)CARE A+; Stable / CARE A1+ (03-Feb-23)	1)CARE A+; Positive / CARE A1+ (07-Dec-21)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instrument/facilities- Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in Gopal Pansari Associate Director **CARE Ratings Limited** Phone: 91-033- 40181647 E-mail: gopal.pansari@careedge.in Shivangi Sharma Assistant Director **CARE Ratings Limited** E-mail: shivangi.sharma@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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