Ultra Dimensions Private Limited

June 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.66	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short Term Bank Facilities	109.00	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**154.66 (₹ One Hundred Fifty-Four Crore and Sixty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Ultra Dimensions Private Limited (UDPL) derive strength from experienced promoters with established presence in defence engineering industry, customer base including renowned clients in defence sector, significant improvement in financial risk profile in FY22 (FY refers to the period April 01 to March 31), healthy operating margins, moderate order book position providing short term revenue visibility, satisfactory capital structure and debt coverage ratios, comfortable operating cycle, adequate liquidity and favourable industry prospects. The rating strengths are, however, tempered by high customer and geographical concentration risks, regulated and tender based nature of business and presence in highly competitive industry. UDPL's ability to secure the new orders going forward which will support the projected growth in revenue will be a key monitorable factor.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations with total operating income (TOI) improving to Rs.500 crore and above while maintaining profit before interest depreciation and tax (PBILDT) margin 15% on a sustained basis
- Diversification of revenue and reduction in client concentration risk

Negative factors – Factors that could lead to negative rating action/downgrade:

- PBILDT margin falling below 14%, going forward
- Overall gearing deteriorating to more than 1.00x, in future
- Any additional investments in group companies over and above the investments o/s as of March 31, 2022

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with established presence in defence engineering industry: UDPL was established in 1994 as a proprietorship concern by Mr. Lakkavarapukota Ganga Trinadha Rao. Subsequently, the constitution was changed to private limited company in 2008. UDPL is engaged in the manufacturing of titanium valves for navy submarines, fabrication of pipes, ship repair work and dredging. Apart from Visakhapatnam, the company has offices in Hyderabad and Port Blair engaged in manufacturing of titanium valves and repair work of ships, respectively. The workshop in Hyderabad manufactures its key product, titanium valves, while the Port Blair office undertakes repair works for ships.

Customer base including renowned clients defence segment: The company has a renowned client base, including reputed players such as the Indian Navy, Mazagon Dock Shipbuilders Limited (MDL), Defence Research Development Establishment (DMDE), Ship Building Centre, Vishakhapatnam Naval Dockyard, Mishra Dhatu Nigam Limited etc. It has established relationships with its customers and has been receiving repeat orders from them. The company also manufactures titanium valves for the Indian Navy submarines and carries out ship repair work, fabrication of pipes for ship building and dredging.

Significant improvement in financial risk profile in FY22 with healthy profitability margins: The scale of operations of the company in last four years ended FY21 was below Rs.100 crore. Though there has been a consistent growth in revenue till FY20, the same witnessed decline by about 15% in FY21 led by impact of COVID-19 on operations of the company. However, UDPL bagged a capital dredging project at Ship Building Centre (SBC) in Visakhapatnam for Rs. 296 crores in Q1FY21 with 2 years' timeline for execution. With execution of the said order, UDPLs revenue witnessed significant improvement in FY22 (provisional). Apart from the dredging works, UDPL also derived revenue from repair works, titanium valves, fabrication of pipes etc. Despite volatility in revenue in the past, UDPL was able to increase the operating profit constantly led by presence of price escalation clauses in most of the contracts. Operating margin of UDPL is constant in the range of 14-16% barring the year FY21 wherein the operating margin stood at 26.54% due to delay in clearance of bills raised in FY20 to FY21. The expenses were recognised in FY20 whereas revenue was recognised in FY21 leading to higher operating margin. In line with increase in revenue, PBILDT level also witnessed increase in FY22 by 107% to Rs.45.30 crore and PBILDT margin stood at 16.16%. The

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

company projects the PBILDT margin to further increase as it is anticipating more works in dredging segment wherein the margin is on a higher side. Post normalcy in business operations and collections, PBILDT level in FY22 stood at 16.16% and PAT level at 11.41%.

Moderate order book position providing short term revenue visibility: UDPL's order book position as of April 01,2022 stood at Rs.232.68 crore which provides revenue visibility of 0.83x of gross sales of FY22 (provisional). Apart from the confirmed order book position, UDPL also has orders worth Rs.882 crore in pipeline where in they are technically qualified and are waiting for the price call. UDPL bagging the orders wherein it is technically qualified shall be a key rating monitorable as it drives the revenue towards projected levels.

Satisfactory capital structure and debt coverage indicators: The debt profile of the company consists of working capital borrowings, term loans and mobilisation advances. Utilisation of working capital borrowings is low as the company recovers the bills for work executed to India Navy within 15-20 days. UDPL mostly utilises the BG limits to participate in bidding and to extend BGs towards release of retention money and mobilisation advances. In FY22, UDPL availed term loan of Rs.26.25 crore to fund the construction of its corporate office which led to increase in term debt as of March 31, 2022. Despite increase in term debt, overall gearing ratio improved to 0.97x as of March 31, 2022 (PYE: 2.04x) with increase in net worth backed by healthy accretion of PAT. Other debt coverage indicators i.e., interest coverage ratio and TD/GCA also improved to 19.92x (FY21: 6.57x) and 1.97x (PY: 5.20x) respectively in FY22.

Comfortable operating cycle: Until FY20, UDPL executed considerable value of works to DMDE, Hyderabad and Material Organisation (MO), Goa wherein the receivable period is higher by 60-75 days. However, currently, UDPL is executing majority of orders i.e., 99% to Indian Navy where in the receivable cycle is very short at about 10-15 days.
Further, out of UDPL's order book, 57% of orders being executed in the same vicinity i.e., Visakhapatnam, the recovery of bills is much faster than those of other projects resulting in comfortable collection period. In FY22, collection period improved to 6 days (PY: 65 days) with fast realisation of receivables. Hence, operating cycle of UDPL has improved and remained comfortable at 14 days in FY22 (PY: 65 days).

Favourable industry prospects: The Indian defence sector is strategically important to India. In 2021-22, the government allocated Rs.4,78,196 crore (US$ 62.8 billion) to defence, 1.5% higher than the previous year. This accounts for 2.15% of GDP and 13.73% of total central government expenditure. In 2020-21, India was the third largest military spender and had the second largest army globally. In view of these factors, coupled with access to nuclear weapons, India is recognised as a strong military power. The defence manufacturing industry is poised for significant growth considering the increasing security threats faced by India, thereby boosting demand for defence equipment. Incentivised by various government reforms, India is quickly ramping up its manufacturing capacity. It also aims to reduce import dependence, which can be ascribed to the defence import programme launched in the 1980s due to lower manufacturing capacity in domestic markets and better technology of foreign countries. Under the Make in India initiative, the Indian government focuses on minimising import dependence, increasing domestic capacity and modernising armed forces. It plans to achieve these by scaling up domestic manufacturing capacity by promoting local Micro Small and Medium Enterprises (MSMEs) and bigger defence manufacturers and by inviting foreign manufacturers to start operations in India. Moreover, the government has announced various reforms on aerospace and defence manufacturing policy to provide a fillip to defence equipment manufacturers in India.

Key rating weaknesses

High customer and geographical concentration risks: UDPL has high customer concentration risk as 100% of its revenue in last two years ended FY22 was derived from a single customer, the Ministry of Defence (MoD). The company's revenues and margins would be adversely impacted in case of any decline in offtake from the same. Also, the geographical concentration is high as most of the orders are concentrated in Visakhapatnam and Mumbai. However, the company has been operating in these regions over a long period, mitigating the risk to an extent.

Regulated and tender based nature of business & presence in highly competitive industry: UDPL operates in a highly regulated industry with its clientele primarily comprising defence and government organisations. Furthermore, the orders are tender-based, and revenue of the company is dependent on its ability to bid successfully for these tenders. Thus, there is tendency of revenue profile to remain fluctuating depending upon the orders bagged. Nevertheless, with promoters long standing experience, moderate orderbook in hand and proposed orders to be bagged along with favourable industry outlook, the company's prospects in near to medium term are likely to remain buoyant. The defence engineering industry is intensely competitive, characterised by the presence of large players. Besides, a tender-based contract awarding system tends to keep the operating margins under check.

Liquidity: Adequate
Adequate Liquidity market by healthy cash accruals of Rs.33.29 crore in FY22 as against the repayment obligation of Rs.5.00 crore for FY23. Further, the collection period has also improved in FY22 to 6 days in comparison with 65 days in FY21. The company was able to receive the payments for work executed on time and Utilisation of bank borrowings is minimal. As of March 31, 2022, only 39% of fund based working capital is utilised. This gives additional cushion of Rs.6.50 crore of unutilised bank borrowings. The company has free cash and cash equivalents of Rs.18.58 crore as on March 31, 2022. Despite capex projected amounting to Rs.6.64 crore, there is sufficient cushion available to UDPL to meet the working capital requirements.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Service Sector Companies

About the company

Ultra Dimensions Private Limited (UDPL), promoted by Mr. L. G. Trinadha Rao and his wife Mrs. L. Navya since 2008, is headquartered in Visakhapatnam. UDPL is primarily involved in dredging and undertakes contract works for manufacturing titanium valves, fabrication of pipers, ship repair works and other engineering works on a turnkey basis. UDPL specializes in executing turnkey projects for Defence domain with multi-disciplinary expertise in Electronics, Mechanical & Civil. The firm is registered with most of the Defence Organisations like Naval Dockyards, Material organizations, various projects of Defence Research & Development Organization (DRDO) including the most prestigious project of Advanced Technology Vessel Project (ATVP) with Ship Building Centre, Vizag and DMDE, Hyderabad, MES, CCE(R&D), Midhani etc. UDPL also awarded with ISO 9001:2015.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (UA)
Total operating income	96.50	82.36	280.22
PBILDT	14.52	21.85	45.30
PAT	5.03	12.70	31.96
Overall gearing (times)	1.35	2.04	0.97
Interest coverage(times)	5.17	6.57	19.92

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	109.00	CARE A3+
Fund-based - LT-Term Loan		-	-	September, 2032	34.66	CARE BBB; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	11.00	CARE BBB; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	109.00	CARE A3+				
3	Fund-based - LT-Term Loan	LT	34.66	CARE BBB; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

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

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

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Y Tejeshwar Reddy
Phone: 9849573699
E-mail: Tejeshwar.Reddy@careedge.in

Relationship contact
Name: Ramesh Bob Asineparthi
Phone: +91 90520 00521
E-mail: ramesh.bob@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.

Disclaimer:
The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in