

March 30, 2023

United Office Systems Private Limited: Ratings reaffirmed and outlook revised to Positive from Stable, rated amount enhanced

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term Fund-based - Cash Credit	18.00	23.00	[ICRA]BBB+; reaffirmed/ assigned; outlook revised to Positive from Stable
Long-term Fund-based - Term Loan	1.85	0.18 [#]	[ICRA]BBB+; reaffirmed; outlook revised to Positive from Stable
Long-term Fund-based - Term Loan	-	45.00	[ICRA]BBB+ (Positive); assigned
Short-term Fund-based – Bills Purchased	(4.00)*	-	
Short-term Non-fund Based- BG/LC	6.00	6.00	[ICRA]A2; reaffirmed
Short-term Fund based - Post Shipment facility	-	2.00	[ICRA]A2; assigned
Short-term Non fund based – BG	(6.00)*	-	
Unallocated	1.29	4.92	[ICRA]BBB+ / [ICRA]A2; reaffirmed/ assigned; outlook revised to Positive from Stable
Total	27.14	81.10	

[^]Instrument details are provided in Annexure-I

*Sub-limit of the cash credit limits; [#]amount outstanding as on March 16, 2023

Rationale

The revision in long-term rating outlook to Positive factors in the expected improvement in United Office Systems Private Limited's (UOSPL or the United Group¹) revenues and operating profits, while maintaining comfortable capital structure and healthy debt coverage metrics in FY2023 and FY2024. ICRA expects the Group to report a healthy revenue growth of ~45-50 % in FY2023 year-on-year (YoY) and by another 12-14% in FY2024, supported by healthy demand for raised access flooring systems, along with the commencement of calcium sulphate panels manufacturing plant in Q2 FY2024. The Group's consolidated operating profit margins are estimated to increase to ~23% in FY2023 backed by higher revenues and be maintained around ~20% levels in the next couple of years. The consolidated debt levels were low at Rs. 13.42 crore as on September 30, 2022. Despite the ongoing debt-funded capex for the calcium sulphate unit, proposed to be funded in debt to equity ratio of 55:45 against the total cost of Rs. 80 crore, the leverage and debt coverage metrics are likely to remain comfortable with total debt/OPBIDTA of 0.25-0.40, interest coverage above 35 times, and DSCR of 9.5-10 times in FY2023 and FY2024, driven by robust profitability.

The ratings continue to factor in the extensive experience of the Group's promoters in the raised access floor business, the operational synergies from its Group concern - United Access Floors Private Limited (UAFPL) - for the marketing and distribution of the products and its reputed customer base. The customer profile consists of reputed large corporates, which limit the counterparty credit risk to some extent.

The ratings, however, remain constrained by UOSPL's moderate scale of operations, despite the improvement in the revenues in FY2022 and FY2023. The ratings are also constrained by the company's high working capital intensity due to the high

¹ The United Group refers to United Office Systems Private Limited and its associate concern United Access Floors Pvt. Ltd.

inventory and receivables, and the vulnerability of its profit margins to raw material prices, given the fixed price nature of its contracts. Nonetheless, the inclusion of escalation clauses for high-value orders in the current fiscal mitigates the raw material price fluctuation risk to an extent, which, along with an increase in revenues are likely to lead to an improvement in operating margins in FY2023 and FY2024.

Key rating drivers and their description – as above

Credit strengths

Experience of promoters in raised access flooring business; synergies from Group companies engaged in civil services – The United Group is promoted by the Rajkotwala family, who has over two decades of experience in the raised access flooring industry. The company has another Group concern, UAFPL, which markets, distributes and installs access flooring systems in India and accounts for 25-30% of the total sales of UOSPL.

Comfortable capital structure and debt coverage indicators – The Group's consolidated capital structure continues to remain comfortable with a low gearing of 0.1 times (0.1 times as on March 31, 2022) and TOL/TNW of 0.4 times (0.3 times as on March 31, 2022) as on September 30, 2022, supported by low debt levels. The Group's consolidated coverage metrics are healthy, with interest coverage of 101.4 times (32.2 times as on March 31, 2022) and total debt/OPBIDTA of 0.2 times (0.3 times as of March 2022) in H1 FY2023, aided by low debt of Rs. 13.4 crore as on September 30, 2022 as well as healthy operating profits. Despite the ongoing debt-funded capex for the calcium sulphate unit, proposed to be funded in debt to equity ratio of 55:45 against the total cost of Rs. 80 crore, the debt coverage metrics are likely to remain comfortable. The Group's consolidated debt coverage metrics are expected to remain healthy, with interest coverage of above 35 times, total debt/OPBIDTA of 0.25-0.40 times and DSCR of 9.5-10 times in FY2023 and FY2024, driven by robust profitability.

Established relationship with reputed clients – The Group has a reputed and diversified customer profile across India, comprising large corporates from the IT industry, financial and banking sector and data centres with a track record of repeat orders from most of its customers and YoY addition to its client base. UOSPL's client base is well-diversified with the top five clients driving ~26% of the total sales in FY2022 (compared with 36% in the previous year).

Credit challenges

Moderate scale of operations – The Group operates in a niche segment of raised access flooring system. Notwithstanding the improvement in revenues in FY2022 and FY2023 vis-à-vis FY2021, the Group's scale of operations continues to be moderate. ICRA expects the Group to report a robust revenue growth of ~40-45% in FY2023 and by 10-12% in FY2024, backed by healthy demand and additional sales from the new unit, which is likely to commence operations from July 2023. Nonetheless, the smooth execution of the orders in hand without any delays and ramp-up in operations of the new unit will be a key monitorable.

High working capital intensity of operations – The Group's working capital intensity of operations remained high during the past owing to elongated receivables and high inventory level. While the NWC/OI stood significantly high at 58% in FY2021, the same moderated to 30% in FY2022 and 22% in H1 FY2023, supported by faster collection of receivables and reduction in inventory levels. Notwithstanding this moderation, the NWC/OI continues to remain high at absolute level and is expected to be in the range of 25-30%.

Vulnerability of profitability to fluctuations in raw material prices – The key raw materials include galvanised iron sheets, special grade steel, calcium sulphate core and cement, the prices of which are volatile in nature and fluctuate in relation to international prices. The orders received by the company are generally fixed price in nature with inclusion of price escalation clauses for high-value orders. Further, the procurement is usually not order-backed, exposing the operations to raw material price fluctuations. In FY2021, UOSPL's inability to pass on the increase in raw material prices owing to the fixed-price contracts

and lower absorption of fixed costs resulted in a significant decline in the operating margin to 16.2% (PY:24.7%). Its operating margin in FY2022 moderated to 14.8% owing to higher raw material prices. The operating margins have witnessed healthy improvement in 9MFY2023, aided by an increase in revenues, and easing of input prices.

Liquidity position: Adequate

ICRA expects the Group’s liquidity position to remain adequate with moderate utilisation of working capital limits (average utilisation of 21% during November 2021 to February 2023), translating to an average cushion of around Rs. 17 crore. Further, the Group has limited long-term debt service obligations of Rs. 1.2–1.5 crore in FY2023 and ~Rs. 3.6 crore in FY2024, which are expected to be comfortably met from the cash flow from operations. It is setting up a facility for manufacturing calcium sulphate core panels, which will be part debt funded. The Group reported fixed deposits worth Rs. 45.0 crore as on February 28, 2023, part of which are proposed to be used for ongoing capex.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the United Group’s revenues and earnings on a sustained basis, along with ramp-up in operations of the new unit. An improvement in the working capital cycle while maintaining strong capitalisation and debt coverage metrics will also support a rating upgrade.

Negative factors – Any significant deterioration in United Group’s revenues and profitability or a stretch in the working capital cycle that weakens the liquidity position may put pressure on the ratings. Further, any significant debt-funded capex deteriorating the capital structure and debt coverage metrics could put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach- Consolidation
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of United Office Systems Private Limited and its Group concern United Access Floors Private Limited considering the common management and strong operational as well as financial linkages.

About the company

UOSPL, a division of the United Group of Companies, was established as a private limited company on March 21, 2011. It is an ISO 9001, 14001 and 18001 accredited company and an active member of the Indian Green Building Council (IGBC). UOSPL manufactures false flooring panels and accessories used in service-based industries, such as IT/ITeS, BPO, banking and financial services and data centres. The company’s registered office is in Mumbai and its manufacturing facility is in Umbergaon, Gujarat. It is promoted by Mr. Moiz Rajkotwala and Mr. Shabbir Rajkotwala, who have experience of over 20 years in this business.

The company has another Group concern - United Access Floors Pvt. Ltd. (UAFPL), which markets, distributes and installs access flooring systems manufactured by UOSPL.

Key financial indicators

UOSPL+ UAFPL(Consolidated)	UOSPL (Standalone)			UOSPL+UAFPL (Consolidated)		
	FY2021 Audited	FY2022 Audited	9M FY2023 Unaudited	FY2021 Audited	FY2022 Audited	H1 FY20223 Unaudited
Operating Income (Rs. crore)	94.30	174.45	219.87	113.42	203.58	172.76
PAT (Rs. crore)	8.80	18.02	41.97	10.29	20.82	28.07
OPBDIT/OI (%)	16.21%	15.07%	26.12%	16.2%	14.8%	22.3%
RoCE (%)	11.38%	20.00%	49.81%	12.3%	20.3%	44.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.27	0.26	0.24	0.27	0.25	0.43
Total Debt/OPBDIT (times)	0.51	0.37	0.14	0.42	0.33	0.17
Interest Coverage (times)	19.21	28.37	139.57	13.37	32.22	101.38

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; all ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Mar 30,2023	Dec 30,2021	Oct 01,2020	Apr 01,2019	
1 Term Loan	Long-term	0.18	0.18	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Cash Credit	Long-term	23.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Term Loan	Long-term	45.00	Nil#	[ICRA]BBB+ (Positive)	-	-	-	
4 Fund Based	Short-term	-	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	
5 Non-fund Based	Short-term	6.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
6 Fund based - Post Shipment facility	Short-term	2.00	-	[ICRA]A2	-	-	-	
7 Non-fund Based-BG	Short-term	-	-	-	[ICRA]A2	-	-	
8 Unallocated	Long-term / Short-term	4.92	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	

Note: Amounts in Rs. Crore; * as on March 16,2023; #Nil outstanding as on date. The facility is yet to be drawn.

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Cash Credit	Simple
Long-term – Term Loan	Simple
Short-term – Fund-based – Post Shipment facility	Simple
Short-term – Non-fund based – LC	Very Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Dec-2017	8.8%	Sep-2023	0.18	[ICRA]BBB+(Positive)
NA	Cash Credit	-	-	-	23.00	[ICRA]BBB+(Positive)
NA	Term Loan	FY2023	8.8%	FY2028	45.00	[ICRA]BBB+(Positive)
NA	Post Shipment facility	-	-	-	2.00	[ICRA]A2
NA	Bank Guarantee /Letter of Credit	-	-	-	6.00	[ICRA]A2
NA	Unallocated	-	-	-	4.92	[ICRA]BBB+(Positive)/[ICRA]A2

Source: UOSPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	UOSPL Ownership	Consolidation Approach
United Access Floors Private Limited	-	Full Consolidation

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