February 07, 2025

Ultra Corpotech Private Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Fund-based – Term loan	280.27	238.00	[ICRA]A+ (Positive); Reaffirmed
Fund-based and non-fund based - Working capital limits^	430.00	530.00	[ICRA]A+ (Positive)/[ICRA]A1; Reaffirmed/Assigned for enhanced amount
Unallocated limits	0.73	250.00	[ICRA]A+ (Positive)/[ICRA]A1; Reaffirmed/Assigned for enhanced amount
Total	**711.0**	**1018.0**	

**Instrument details are provided in Annexure I, ^Fund based and non-fund based limits are interchangeable*

Rationale

The reaffirmation of Ultra Corpotech Private Limited's (UCPL)ratings factors in the robust operational performance, aided by its strong engineering and product development capabilities. Its established business of supplying precision and high-quality heavy-duty metal components to reputed global original equipment manufacturers (OEMs) and tier-1 manufacturers. The prospects of UCPL remain linked to the global demand conditions of key end-user industries, the oil and gas and renewable energy sectors, Transportation, Industrial Engineering, Construction & Mining Equipment which constitute majority of the entity's revenues. The ratings also favourably factor in the entity's healthy financial risk profile, characterised by a robust capital structure and strong debt coverage indicators.

The positive outlook on long term rating continues to factor in ICRA's expectation of sustained healthy operating and financial performance in the near to medium term.

The company reported healthy revenues of ~Rs. 2060 crore and strong operating margins of 27.2% in FY2024 though moderated from FY2023 levels. This comes on the back of a sustained healthy demand from the oil and gas, renewable, construction and mining, transportation and industrial Engineering reflected in a strong order book position of ~Rs. 992 crore as of October 31, 2024.

The ratings, however, remain exposed to significant capital expenditure incurred in the subsidiary in the USA in FY2024 and stabilisation and ramp up of operations of this entity will remain a key monitorable moving forward. The company has significant capex plans in FY2025 and FY2026 which is likely to be funded by a mix of debt and internal accruals.

The ratings are also constrained by UCPL's high revenue concentration. Its revenues, although derived from various sectors, remain concentrated on the top two sectors, i.e. oil and gas and renewable energy (together constituting ~83% of the revenues in FY2024 and ~80% in H1 FY2025), which exposes the entity to the inherent cyclicality of the end-user industry. Additionally, even as the entity caters to multiple customers, a significant amount of its revenue is derived from its top two customers (constituting ~56% of the revenues in FY2024 and 47% in H1FY2025 respectively), resulting in customer concentration risk. However, its current order book indicates an increase in concentration with the top two customers contributing ~49% to the order book (~39% in the last order book) owing to the receipt of one large order under industrial engineering segment. Further, the risk is mitigated to an extent by the company's established relationship with customers and the multiple touchpoints across the globe.

While UCPL's inventory management policy aids its revenue growth and profitability prospects, it also results in higher blockage of funds in working capital requirements. This is accentuated by the credit periods extended to customers. The ratings are also constrained by the exposure of UCPL's profitability to the fluctuation in raw material prices, as price revisions usually occur after a certain period and only if the price rise exceeds a certain level (e.g., 5%). Moreover, the company is exposed to exchange rate fluctuations as it remains partially unhedged.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and established track record of operations - Mr. Ashok Bhosle founded UCPL in 1991 as a manufacturer of dies, moulds and precision components. Over the three decades, UCPL has marked its presence as one of the top precision and high quality Heavy Duty Metal components suppliers to the oil and gas, renewable energy, construction and mining, transportation and industrial Engineering segments. With more than three decades of experience, UCPL has been able to forge strong relationships with OEMs and suppliers, benefitting from its strong engineering and development capabilities.

Reputed client profile with established relationships - UCPL's customer profile consists of reputed tier-1 players and OEMs in the oil and gas and renewable energy segments. The entity has been able to forge a strong relationship with these clients, which has resulted in repeat orders from these customers. Also, it has been continuously adding new customers over the years. The entity continues to explore opportunities to increase its business with other customers in the oil and gas, construction and industrial engineering, renewable energy segments.

Healthy scale and profitability – The company reported healthy revenues of ~Rs. 2060 crore and strong operating margins of 27.2% in FY2024 though moderated from FY2023 levels... The company reported revenues of ~Rs. 965 crore in H1 FY2025, and the current order book in hand of ~Rs. 992 crore as on October 31, 2024 provides revenue visibility in the near term. The operating profit margins remain healthy as the company manufactures complex and high-value-added machined components, which are mainly intellectual property (IP) products for most clients. The operating margins declined YoY, due to increase in employee costs and provision for warranty claims; still remaining healthy. Going forward, the return metrics are expected to remain healthy in the medium term.

Strong financial risk profile - UCPL's financial risk profile remains healthy, characterised by a comfortable capital structure and strong debt coverage indicators, led by a strong net worth base and robust profitability. The gearing stood at 0.7 times as on March 31, 2024 (1.1 times as on March 31, 2023). The debt coverage indicators remain robust, with the company having an interest coverage of 19.1 times and total debt/OBDITA of 1.6 times in FY2024 (33.1 times and 1.0 times in FY2023, respectively). The entity's business is capital-intensive and requires constant capacity enhancement to meet the increasing demand and upgradations. Hence, there would be a capex of ~ Rs.250 - 300 crore each year, which is to be funded through a mix of term loans and internal accruals. Nonetheless, the overall capital structure and coverage indicators are expected to remain comfortable, going forward.

Credit challenges

High customer concentration risk - UCPL caters to many customers. However, its revenues remain concentrated on the top two customers (constituting ~56% of the revenues in FY2024 and 47% in H1FY2025). While the high customer concentration risk makes the company vulnerable to demand from OEMs and sector downturns, UCPL's efforts to diversify its customer mix helped reduce its dependence on the top two customers to an extent. The increase in supplies for its other businesses and addition of new customers is also likely to help reduce the concentration risk, going forward.

Working capital-intensive operations - UCPL's working capital intensity remained high at 37-40% in the last three years, driven by high inventory requirements and receivable cycle. It has to maintain high inventory because of its global delivery service to prominent clients on a timely basis. Also, the debtor days have stood high, led by a credit period of up to 120 days extended to its customers. Considering the export nature of operations, the working capital intensity is expected to remain high in the near to medium term.

Exposure to inherent demand cyclicality in key end-user segments - The entity derives its revenues majorly from two sectors, i.e. oil and gas and renewable energy, which are largely dependent on global/macroeconomic growth. A bulk of UCPL's revenues is derived from the export markets, with domestic supplies constituting ~25% of its revenues in H1FY2025 and ~18% in FY2024. Accordingly, UCPL's revenue prospects remain linked to the global demand conditions.

Exposure of profitability to price variations in raw material prices and foreign currency fluctuation risk - The company is susceptible to exchange rate fluctuations with exports contributing to ~75-80% of the entity's revenues. Though the entity's foreign currency exposure from exports remains largely open, it is mitigated partially by the natural hedge from imports and foreign currency borrowings. The company's margins also remain exposed to the fluctuations in raw material prices, though most contracts have pass-through clauses. However, there is a time lag for passing on such price increases. Additionally, the company has a policy of back-to-back order-backed purchases.

Liquidity position: Adequate

UCPL's liquidity position is adequate and backed by the cushion available in its working capital limit and sufficient cash generation from its business to manage its working capital requirements and debt repayments. The liquidity is further supported by free cash and cash equivalents of ~Rs. 22.42 crore and investments of ~Rs. 540.08 crore as on September 30, 2024. The company has capex plans of ~Rs. 392 crore in FY2025 and ~Rs. 236 crore in FY2026 which are likely to be funded through a mix of debt and internal accruals. Further, the company's working capital limit utilisation (sanctioned limits – Rs.430 crore) stood low at 14% for twelve months ended October 2024, which provides additional cushion.

Rating sensitivities

Positive factors – ICRA could upgrade UCPL's ratings if it sustains a healthy scale of operations and strong margins along with a diversification in its customer base, stabilisation and ramp up of US operations while maintaining a healthy liquidity position.

Negative factors – ICRA could downgrade the ratings if any significant decline in the scale or profitability deteriorates the company's financial risk profile. ICRA would also downgrade if there is any further stretch in the working capital cycle or any debt-funded capex pressurizes the liquidity. Specific trigger for a credit downgrade is TD/OPBDITA of more than 2 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ultra Corpotech Private Limited.

About the company

Ultra Corpotech Private Limited (UCPL) was established in 1991 as Ultra Engineers, a proprietorship firm under Mr. Ashok Bhosle manufacturing and supplying a wide range of precision machined components and high quality Heavy Duty Metal components used in various products and sub-assemblies. The sole proprietorship business transitioned into a private limited company, Ultra Corpotech Private Limited, effective October 1, 2021. The entity's operations are driven by Mr. Ashok Bhosle, who has more than three decades of experience in the machine tooling industry. It manufactures precision-machined components for oil and gas, power and energy, transport, and other industries, using raw materials such as aluminium, brass, and steel. The company has factories at 10 locations across Pune with ~ 2 million square feet of built-up area.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,434.7	2,060.4
PAT	607.4	343.2
OPBDIT/OI	36.0%	27.2%
PAT/OI	24.9%	16.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.0
Total debt/OPBDIT (times)	1.0	1.6
Interest coverage (times)	33.1	19.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Feb 07,2025	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	238.00	[ICRA]A+ (Positive)	27-DEC-2023	[ICRA]A+ (Positive)	30-SEP-2022	[ICRA]A+ (Stable)	11-OCT-2021	[ICRA]A (Stable)
				-	-	25-NOV-2022	[ICRA]A+ (Stable)		
Long term / short term-others-fund based/non fund based	Long Term/Short Term	530.00	[ICRA]A+ (Positive)/ [ICRA]A1	27-DEC-2023	[ICRA]A+ (Positive)/ [ICRA]A1	30-SEP-2022	[ICRA]A+ (Stable)/ [ICRA]A1	11-OCT-2021	[ICRA]A (Stable)/ [ICRA]A2+
				-	-	25-NOV-2022	[ICRA]A+ (Stable)/ [ICRA]A1		
Long term / short term-unallocated-fund based/non fund based	Long Term/Short Term	250.00	[ICRA]A+ (Positive)/ [ICRA]A1	27-DEC-2023	[ICRA]A+ (Positive)/ [ICRA]A1	30-SEP-2022	[ICRA]A+ (Stable)/ [ICRA]A1	11-OCT-2021	[ICRA]A (Stable)/ [ICRA]A2+

				-	-	25-NOV-2022	[ICRA]A+ (Stable)/ [ICRA]A1		
Forward cover	Short term							11-OCT-2021	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity indicator
Fund based/ Non-fund based working capital facilities	Simple
Term loan	Simple
Unallocated	NA

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 are available on ICRA’s website: Click here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based and non-fund based working capital facilities**	NA	NA	NA	530.00	[ICRA]A+(Positive)/[ICRA]A1
NA	**Term loan**	FY2018	NA	FY2030	238.00	[ICRA]A+(Positive)
NA	**Unallocated**	NA	NA	NA	250.00	[ICRA]A+(Positive)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ultra Corpotech Inc.	100%	Full Consolidation

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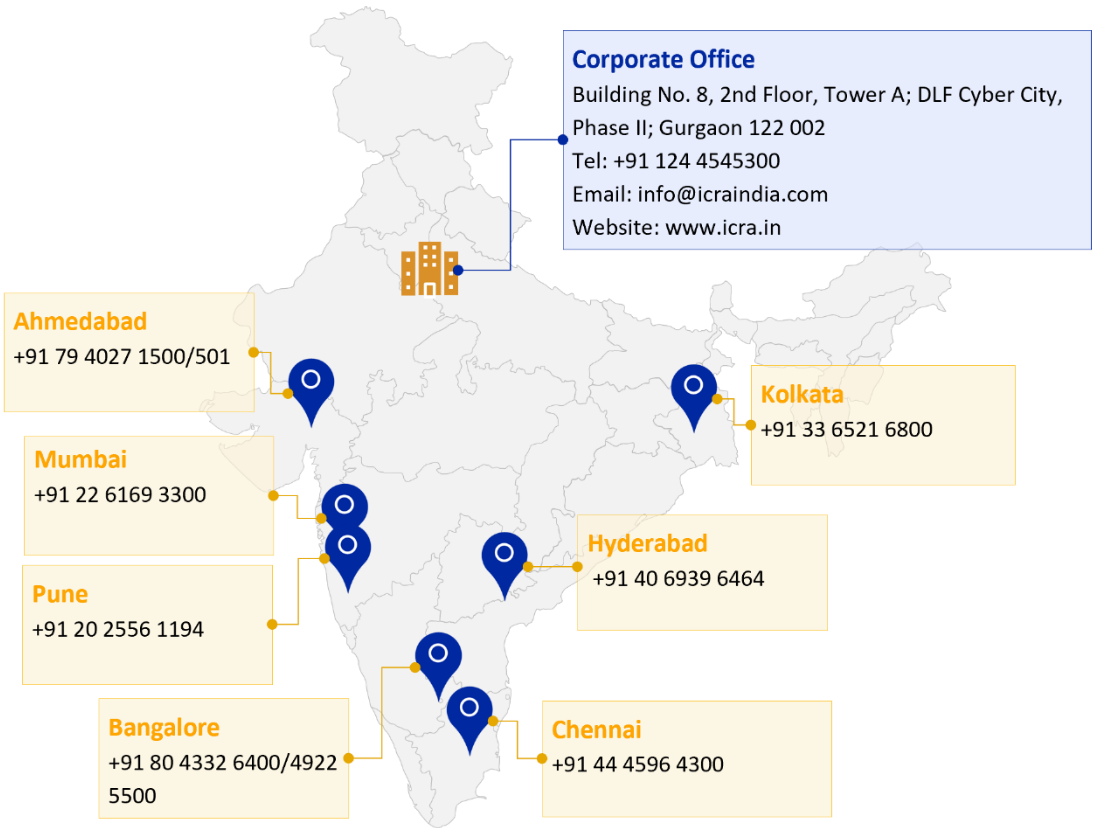

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