

## Rating Update

May 23, 2018 | Mumbai

### United Drilling Tools Limited

#### Update as on May 23, 2018

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

- Success rate in winning tenders
- Efficiency in working capital management
- Scale of operations and profitability
- Any capital expenditure (capex) plans and their funding mix

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from United Drilling Tools Limited (UDTL) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

#### About the Firm

UDTL was set up in 1986, as a private company by Mr Pramod Kumar Gupta. It was reconstituted as a public company in 2001, and is listed on Bombay Stock Exchange (BSE). The company manufactures drilling tools such as winches, gas lift equipment, and handling tools, which are used for underwater drilling, mainly used in oil and gas sectors. The company has two manufacturing facilities, one each in Noida and Gujarat.

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## Rating Rationale

May 15, 2018 | Mumbai

### United Drilling Tools Limited

'CRISIL BB+/Stable/CRISIL A4+' assigned to bank debt

#### Rating Action

Total Bank Loan Facilities Rated	Rs.41.61 Crore
Long Term Rating	CRISIL BB+/Stable (Assigned)
Short Term Rating	CRISIL A4+ (Assigned)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has assigned its 'CRISIL BB+/Stable/CRISIL A4+' ratings to bank facilities of United Drilling Tools Limited (UDTL).

The ratings reflect the company's established market position and extensive experience of its promoters, healthy order pipeline and comfortable financial risk profile. These strengths are partially offset by moderate scale of operations, working capital-intensive operations and exposure to risks related to tender-based nature of business and customer concentration.

#### Key Rating Drivers & Detailed Description

##### Strengths

**\* Established market position and extensive experience of the promoters:** The three decade-long experience of UDTL's promoters in the drilling equipment industry, healthy relationships with clients, and the company's strong market presence both in the domestic as well as export market, will continue to support the business risk profile. Few customers include ONGC Ltd, Jindal Saw Ltd, and Fullton Bellows LLC (USA).

**\* Healthy order pipeline offering revenue visibility:** Orders worth Rs 123 crore are to be executed till September 2019, and thus, provide medium-term revenue visibility. The order book is around 1.6 times the expected revenue of Rs 73-74 crore estimated in fiscal 2018.

**\* Comfortable financial risk profile:** The financial risk profile is marked by low gearing estimated below one time, and above-average debt protection metrics.

##### Weakness

**\* Moderate scale of operations and tender-based nature of business:** Turnover of Rs 81.1 crore in fiscal 2017, reflects the moderate scale of operations. Revenue depends upon the quantum of tenders being floated, and the company's ability to win them. The tender-driven nature of business restricts scalability in operations and bargaining power. Although, the company has sizeable orders, revenue would remain moderate over the medium term.

**\* Customer concentration:** ONGC Ltd accounts for around 87% of the current pipeline of orders worth Rs 123.0 crore, and contributes to 80% of the total revenue. This reflects exposure to customer concentration risk, and dependence on the company's ability to successfully bid for tenders, and vulnerability to any slowdown in performance of customers. However, the decade-long association with ONGC mitigates this risk.

**\* Working capital-intensive operations:** Operations are highly working capital intensive, marked by gross current assets of 356 days as on March 31, 2017, mainly due to sizeable inventory. However, bulk of the inventory is order backed.

## Outlook: Stable

CRISIL believes UDTL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if a significant and sustained growth in revenue, and stable profitability lead to substantial cash accrual while working capital is managed efficiently. Conversely, the outlook may be revised to 'Negative' if low cash accrual, stretch in the working capital cycle, or any major capital expenditure constrains liquidity.

## About the Company

UDTL was set up in 1986, as a private company by Mr Pramod Kumar Gupta. It was reconstituted as a public company in 2001, and is listed on Bombay Stock Exchange (BSE). The company manufactures drilling tools such as winches, gas lift equipment, and handling tools, which are used for underwater drilling, mainly used in oil and gas sectors. The company has two manufacturing facilities, one each in Noida and Gujarat.

## Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs crore	81.15	34.64
Profit after tax	Rs crore	20.85	6.53
PAT margin	%	25.7	18.9
Adjusted debt/adjusted networth	Times	0.14	0.43
Interest coverage	Times	52.79	25.74

Any other information: Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	0.81	CRISIL BB+/Stable
NA	Packing Credit	NA	NA	NA	20.4	CRISIL A4+
NA	Bank Guarantee	NA	NA	NA	12	CRISIL A4+
NA	Letter of Credit	NA	NA	NA	8.4	CRISIL A4+

## Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	21.21	CRISIL BB+/Stable e/ CRISIL A4+		--		--		--		--	--
Non Fund-based Bank Facilities	LT/ST	20.40	CRISIL A4+		--		--		--		--	--

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	.81	CRISIL BB+/Stable	--	0	--
Packing Credit	20.4	CRISIL A4+	--	0	--
Bank Guarantee	12	CRISIL A4+	--	0	--
Letter of Credit	8.4	CRISIL A4+	--	0	--
<b>Total</b>	<b>41.61</b>	<b>--</b>	<b>Total</b>	<b>0</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Approach to Recognising Default](#)

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