Press Release

United Rubbers Industries India Private Limited (URIPL)

14 December, 2017

Rating Upgraded

Total Bank Facility Rated *	Rs.27.00 Crore (Enhanced from Rs 25.00 Crore)
Long Term Rating	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Short Term Rating	SMERA A3+ (Upgraded from SMERA A3)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs.27.00 crore bank facilities of United Rubbers Industries India Private Limited to **'SMERA BBB' (read as SMERA triple B)** from **'SMERA BBB- (read as SMERA triple B minus)** and short term rating to **'SMERA A3+' (read as SMERA A three plus)** from **'SMERA A3' (read as SMERA A three)**. The outlook is **'Stable'**.

The upgrade is in view of the healthy profitability margins along with consistent improvement in the financial risk profile and increase in business from top customers. SMERA believes that United Rubber Industries (India) Private Limited (URIPL) will maintain profitability margins in the medium term along with further improvement in its financial risk profile.

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track record of operations

URIPL was incorporated in 1976 by Mr. Ajit Rai, Managing Director. The company manufactures rubber components for a wide range of industries including automotive, power transmission, construction equipments at Bhayander, Mumbai. Mr. Rai has been actively involved in the business since inception and is ably assisted by his daughter, Ms Giree Rai who heads the operations in US and Canada and his son, Mr. Geet Rai who manages the domestic market.

Long standing relations with reputed clients

The company has been able to forge long standing relations with its reputed clients including Mahindra & Mahindra, VE Commercial Vehicles Ltd, Force Motors Limited, JCB India Limited among others. The company caters to the automotive, construction equipment, power transmission industries. Revenue from the automotive, construction equipment's, power transmission and other industries constitutes around ~ 60 per cent, 25 and 15 per cent respectively of its total revenue. URIPL on account of their long standing relationship has been able to get repeat business from their customers.

Above average financial risk profile

The company has healthy financial risk profile marked by improved gearing of 1.06 times as on 31 March 2017 as against 1.19 times in the previous year. The total debt of Rs. 20.94 crore in FY2017 consists of short term working capital facilities of Rs.16.03 crore, Rs. 0.95 crore of unsecured loans from promoters and secured long term bank debt. The net worth stood at a moderate Rs.20.94 crore in FY2017 as against Rs.18.33 crore in FY2016.

The Interest coverage ratio (ICR) improved and stood comfortable at 2.89 times for FY2017 as against 2.44 times in FY2016. The DSCR stood at 1.80 times in FY2017 as against 1.79 times in FY2016.

Healthy profitability

The EBITDA is healthy at around 13.95 percent for FY2017 though the same fell from 14.84 per cent for FY2016 on account of rise in the cost of synthetic rubber which constitutes around 80 per cent of the total raw material cost. Synthetic rubber being a petroleum-derived product is exposed to fluctuations in crude prices. However, the net profitability margins improved to 3.92 per cent in FY2017 from 3.75 per cent in FY2016 on account of lower interest cost.

Weaknesses:

Modest scale of operations

The scale of operations stood at a moderate scale with revenue of Rs 66.24 crore in FY2017 as against Rs 58.21 crore in FY2015. During the current year, URIPL booked revenue of Rs 50 crore till October 2017.

Working capital intensive operations

The operations are working capital intensive with Gross Current Asset (GCA) days of 208 in FY2017 as against 236 in FY2016. The high GCA days are on account of debtor days of 138 in FY2017 as against 137 days in FY2016. The stretched debtor days are on account of extended credit period of 90 days allowed to private players and 180 days to government agencies. The inventory stood at 53 days in FY2017 as against 72 days in FY2016. The company has to maintain high inventory of raw materials due to the continuous flow of orders from customers. On an average the company utilises ~ 95 per cent of its working capital limit.

Foreign exchange fluctuation risk

Of the total revenue of Rs.66.24 crore in FY2017, around 30 per cent was generated from export to USA, Canada, UK, Europe, Australia and Sweden on which the company booked forex loss of Rs 0.45 crore.

Analytical approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of URIPL.

Applicable Criteria

- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
- Application of Financial Ratios and Adjustments: https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition:https://www.smera.in/criteria-default.htm

Outlook – Stable

SMERA believes that the outlook of URIPL will remain stable on account of its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant increase in revenue while sustaining profitability and maintaining an effective working capital management. Conversely, the outlook maybe revised to 'Negative' in case of deterioration in the financial risk profile or if the company undertakes significant debt funded capex.

About the Rated Entity - Key Financials

For FY2016, URIPL reported Profit after Tax (PAT) of Rs.2.61 crore on total operating income of Rs.66.24 crore compared with PAT of Rs2.19 crore on total operating income of Rs.58.21 crore in FY2015.

Status of non-cooperation with previous CRA:
None

Any other information:
None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26-Oct, 2016	Cash Credit	Long Term	INR 16.50*	SMERA BBB-/Stable (Assigned)
	Term Loan	Long Term	INR 3.75	SMERA BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	INR 0.25	SMERA A3 (Assigned)
	Letter of Credit	Short Term	INR 4.50**	SMERA A3 (Assigned)

**Sublimit as Export Packing Credit & Export Bill Discounting to the extent of Rs. 4.50 crore.*
*** Sublimit as Buyers' credit to the extent of Rs. 2.00 crore.*

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	NA	NA	NA	16.50	SMERA BBB/Stable (Upgraded)
Term Loan	NA	NA	NA	4.25	SMERA BBB/Stable (Upgraded)
Bank Guarantee	NA	NA	NA	0.25	SMERA A3+ (Upgraded)
Stand By Line of Credit	NA	NA	NA	1.50	SMERA A3+ (Upgraded)
Letter of Credit	NA	NA	NA	4.50	SMERA A3+ (Upgraded)

Note on complexity levels of the rated instrument: https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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