

Press Release

United Rubbers Industries India Private Limited

November 23, 2018

Rating Re-affirmed



Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE BBB/Outlook: Negative (Re-affirmed)
Short Term Rating	ACUITE A3+ (Re-affirmed)

* Refer Annexure for details

Rating Rationale

Acuité has re-affirmed long term rating of '**ACUITE BBB**' (**read as ACUITE TRIPLE b**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on Rs 28.00 crore bank facilities of United Rubbers Industries India Private Limited (URIPL). Acuité has also assigned short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs 5.00 crore bank facility of United Rubber Industries India Private Limited. The outlook is revised from '**Stable**' to '**Negative**'. The revision in outlook is in view of dip in the operating margins and moderation in financial risk profile in FY 2018. Further, the operating performance of URIPL in FY 2018 has been lower than Acuité expectation. Going forward, improvement in margins and financial risk profile will remain a key rating sensitivity.

Incorporated in 1976 - United Rubber Industries (I) Private Limited is a Mumbai based company engaged in manufacturing of rubber and silicone base products which find wide application across industries such as automotive, defence, railways, power, and transmission companies. The company is promoted by Mr. Ajit Rai.

Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of the company to arrive at the rating.

Key Rating Drivers:

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 equipment's 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. Further In 2018, the company has been able to add Navistar Inc a USA based commercial vehicles manufacturing company in its list of reputed clientele. 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.

Improvement in revenue

The revenue increases in FY 2018 to Rs 87.49 crs from Rs 66.64 crs in FY 2017. The rise in revenue is primarily on account of higher sales to its existing customers. In addition the company has been able to add a new customer Navistar Inc in the overseas market of USA. Further during FY 2018-19- the company has clocked revenue of Rs 80.78 crs (prov) till 30th Oct'18.

Weaknesses

Decline in profitability metrics

The profitability margins declined in FY 2018 in comparison to FY 2017. Operating margins declined to 10.03 % in FY 2018 from 13.95 % in FY 2017. The net profit margins also declined in line with the operating margins which stood at 1.37 % in FY 2018 as against 3.92 % in FY 2017. The decline in operating margins is mainly due to rise in employee cost which the company has to incur in order to retain skilled labour. Labour cost increased to Rs 17.34 crs (19.82 % of sales) in FY 2018 from Rs 10.78 crs (16.17 % of sales) in the previous year.

Deterioration in financial risk profile

The decline in operating margins has resulted in deterioration in the financial risk profile. The Interest coverage ratio (ICR) declined to 2.30 times as on 31st March'2018 as against 2.89 times in the previous year. DSCR stood at 1.59 times as on 31st March'2018 as against 1.80 times in the previous year. Further the company has relied on bank lines to fund its capex in FY 2018 which resulted in the moderation in the gearing (debt-equity). The gearing has increased and stood at 1.47 times as on 31st March'2018 as against 1.06 times in the previous year. The net worth stood moderate at Rs. 22.14 crore as on 31st March'2018 as against Rs 20.94 crs in the previous year.

Working capital intensive nature of operations

The operations are working capital intensive with Gross Current Asset (GCA) days of 250 in FY2018 as against 218 in FY2017. The high GCA days are on account of debtor days of 148 in FY2018 as against 138 days in FY2017. 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 67 days in FY2018 as against 53days in FY2017. The company has to maintain high inventory of raw materials due to the continuous flow of orders from customers. On an average the company utilizes ~ 98 per cent of its working capital limit during the six month ended September'18.

Outlook: Stable

Acuité believes that the outlook of URIPL would remain 'Negative' on account of dip in operating margins, deterioration in the financial risk profile and elongated working capital cycle due to stretched debtor position. The rating may be downgraded in case of further decline in operating margins, financial risk profile and stretched working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the entity registers sustained improvement in margins, financial risk profile and working capital management.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	87.49	66.64	58.21
EBITDA	Rs. Cr.	8.78	9.30	8.64
PAT	Rs. Cr.	1.20	2.61	2.19
EBITDA Margin	(%)	10.03	13.95	14.84
PAT Margin	(%)	1.37	3.92	3.75
ROCE	(%)	11.20	15.50	15.94
Total Debt/Tangible Net Worth	Times	1.47	1.06	1.19
PBDIT/Interest	Times	2.30	2.89	2.44
Total Debt/PBDIT	Times	3.67	2.33	2.47
Gross Current Assets (Days)	Days	250	218	236

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SStatus**Status of non-cooperation with previous CRA (if applicable)**

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
14-Dec-2017	Cash Credit	Long Term	16.50	ACUITE BBB/Stable (Upgraded)
	Term Loan	Long Term	4.25	ACUITE BBB/Stable (Upgraded)
	Stand By Line of Credit	Short Term	0.25	ACUITE A3+ (Upgraded)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	4.50	ACUITE A3+ (Upgraded)
	Cash Credit	Long Term	INR 16.50*	ACUITE BBB-/Stable (Assigned)

26-Oct, 2016	Term Loan	Long Term	INR 3.75	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	INR 0.25	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 4.50**	ACUITE 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	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB/Negative (Downgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB/Negative (Downgraded)
EPC/FBD*	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Assigned)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+ (Re-affirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Re-affirmed)

- Sublimit as Export Packing Credit & Export Bill Discounting to the extent of Rs. 4.00 crore.

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About Acuité Ratings & Research:

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