Press Release

Uniphos Envirotronic private Limited

06 April, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 28.00 Crore
Long Term Rating	SMERA BBB/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB' (read as triple B)** and short term rating of **'SMERA A3+' (read as A three plus)** on the Rs. 28.00 crore bank facilities of Uniphos Envirotronic Private Limited (UEPL). The outlook is **'Stable'**.

UEPL was incorporated in the year 2007 by Mr. Rajnikant Devidas Shroff and his wife Mrs. Sandra Rajnikant Shroff. The company is engaged in the manufacture and trade of a wide range of detectors and safety products like gas detectors, fire detectors, analytical equipment, fumigation equipment etc. for the last eight years. UEPL also has research & development activity in this area. The products find application in various industries including chemical and petro-chemical industries, oil refineries, government establishments, fumigators etc. The company exports its ~40 percent of its sales to more than 45 countries including USA, Germany, U.K., Spain, Mexico, South Africa, Argentina, etc.

The company also provides service in the nature of calibration and annual maintenance contracts. The trading activity contributes around 12 percent to the total revenue; service contributes around 6 percent and remaining is derived from manufacturing activity. The manufacturing unit of the company is located in in Valsad, Gujarat admeasuring 200000 sq. ft.

UEPL has two wholly owned subsidiaries i.e. Uniphos Envirotronic Inc. and UEPL Limited Mauritius together referred to as the UEPL group.

Key rating drivers

Strengths:

Experience management and funding support from promoters

UEPL group has presence in the manufacturing of gas detectors and safety products for the last eight years. The group caters to diversified application including waste water analysis, oil quality analysis, and other agri instruments.

The UEPL group was earlier a division of UPL Limited which is one of the largest generic agrochemicals player in the world, having presence in various segments including crop protection products, intermediates, specialty chemicals and other industrial chemicals. The UEPL group benefits from the extensive experience of its management including Mr. Rajnikant D. Shroff and Mrs. Sandra R. Shroff who collectively possess more than six decades of experience in the generic agrochemical industry and manufacturing of industrial Equipments. UEPL group's chairman Dr. R. C. Naik has over four decades of experience in spectroscopy and was a scientist at Bhabha Atomic Research Centre. The top management is ably supported by well qualified and experienced team of second line of management. The UEPL group benefits from the strong financial flexibility on account of its association with the UPL Limited.

SMERA believes that going forward the timely funding support from the promoters will be key rating sensitivity factor.

Reputed clientele

The products manufactured by the company find application in various industries including chemical and petro-chemical industries, oil refineries, government establishments, fumigators etc. UEPL exports its ~40 percent of its sales to more than 45 countries including USA, Germany, U.K., Spain, Mexico, South Africa, Argentina, etc. The company caters to reputed clientele including 7 Solutions BV, Gujarat Gas Limited, Spectro Gas PTE Limited etc. The company is also supplying to Maharashtra State Government.

Moderate financial risk profile

The financial risk profile of the UEPL group is moderate marked by tangible networth of Rs. 20.68 crore as on 31st March, 2017 as against Rs. 21.31 crore in the previous year. The decline in networth is on account of net loss of Rs. 2.12 crore for FY 2017 in its US based subsidiary Uniphos Envirotronic Inc. The debt to equity ratio stood at 1.41 times as on 31st March, 2017 as against 1.21 times in the previous year. The interest coverage ratio stood at 1.64 times for FY 2017 as against 1.67 times in the previous year. The debt service coverage ratio stood at 1.00 times for FY 2017 as against 1.33 times in the previous year. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.33 times as on 31st March, 2017 as against 1.86 times in the previous year.

Weaknesses:

Modest scale of operations

UEPL group reported operating revenue of Rs. 37.59 crore for FY 2017 as against Rs. 30.20 crore in the previous year. The growth in revenue can be attributed to purchase of machinery during FY 2014-15 from Mine Safety Appliances, Germany. This has resulted in manufacturing of wide range of products leading to higher customer demand. The group started receiving higher number of orders during the last two years. Further, as informed by the management has reported operating income of Rs. 24.81 crore during April, 2017 to January, 2018.

Working capital intensive nature of operations

The operating cycle of the UEPL group is elongated marked by Gross Current Assets (GCA) of 387 days for FY2017 as against 369 days for FY2016. This is mainly on account of high inventory days of 221 days for FY 2017 and 214 days for FY 2016. The group had imported goods worth Rs. 4.00 crore during the year end leading to high payables and inventory days. The group also maintains high inventory of its products due to wide range of products offered by the company. Further, around 50 percent of the revenue is reported during the last quarter of the year leading to high amount of debtor days during the year end with debtor days at 143 days for FY2017 as against 131 days in the previous year. Further, the average cash credit limit utilisation stood at around 94 percent during the last six months as on 31st January, 2018.

Dependence on tenders coupled with delays in execution and project execution risk

UEPL group executes tender based contracts (90 per cent of the revenue) of public sector units and private players indicating that the firm is highly dependent on successful bidding of tenders.

Further, delays in the project execution due to site clearances along with the delayed receipt from customers are likely to result in higher working capital requirements. Furthermore, margins are pressurized due to increase in operating overheads, competitive bidding for tenders in the light of stiff competition and slower execution of projects.

Analytical approach:

SMERA has considered the consolidated business and financial risk profiles of Uniphos Envirotronic Private Limited (UEPL) and its wholly owned subsidiaries Uniphos Envirotronic Inc. and UEPL Limited Mauritius together referred to as the UEPL group. However UEPL Limited Mauritius has been dissolved in June, 2016. The consolidation is due to the common promoters, shared brand name, common treasury and financial synergies within the group.

Outlook: Stable

SMERA believes that UEPL group will maintain 'Stable' outlook over the medium term on account of experienced management and established presence in the gas detection and monitoring equipment. The outlook may be revised to 'Positive' if the company reports significant growth in revenue and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline of revenue and deterioration of profit margins or liquidity position.

Applicable Criteria

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

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	37.59	30.20	29.72
EBITDA	Rs. Cr.	3.10	2.57	4.55
PAT	Rs. Cr.	(1.69)	(2.10)	2.05
EBITDA Margin	(%)	8.25	8.52	15.30
PAT Margin	(%)	(4.50)	(6.94)	6.90
ROCE	(%)	0.53	0.74	17.01
Total Debt/Tangible Net Worth	Times	1.72	1.35	0.84
PBDIT/Interest	Times	1.64	1.67	6.03
Total Debt/PBDIT	Times	10.54	9.48	4.01
Gross Current Assets (Days)	Days	387	369	302

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***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	16.00	SMERA BBB/Stable
External Commercial Borrowings	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3+

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

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141321 Email: shashikala.hegde@smera.in	Varsha Bist Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.