

Press Release

Uniphos Envirotronic private Limited

June 19, 2019

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 28.00 Cr. |
| Long Term Rating | ACUITE BBB / Outlook: Stable |
| Short Term Rating | ACUITE A3+ |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.28.00 crore bank facilities of UNIPHOS ENVIROTRONIC PRIVATE LIMITED (UEPL). The outlook is '**Stable**'.

The rating continues to derive comfort from extensive experience of the promoters in the industry, improvement in the operating performance and strong financial flexibility on account of its association with the promoters of UPL Limited.

Gujarat based, UEPL is promoted by Mr. Rajnikant Devidas Shroff and his wife, Mrs. Sandra Rajnikant Shroff. This company was initially operating under the name of Chemo Electronic Laboratory (CEL), which was reconstituted into a company in 2010. The company manufactures and trades wide range of detectors and safety products such as gas detectors, fire detectors, analytical equipment and fumigation equipment among others. UEPL has its own research and development department which is the backbone of this company.

Analytical Approach

Acuite has considered the consolidated approach of UEPL and its subsidiary to evaluate the credit quality of UEPL to arrive at the final rating. Extent of Consolidation: Full.

About the Group

Uniphos Envirotronic Inc is an USA based wholly owned subsidiary of UEPL. The company is marketing arm of UEPL.

Key Rating Drivers

Strengths

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by tangible net worth of Rs.12.85 crore as on March 31, 2019 (Provisional) as compared to Rs.13.54 crore as on March 31, 2018. The decline in net worth is on account of net losses in FY 2018. The debt to equity ratio deteriorated to 2.95 times as on March 31, 2019 (Provisional) from 1.72 times as on March 31, 2018, due to additional unsecured loan infused by the promoters during FY2019. The total debt of Rs.42.74 crore as on March 31, 2019 (Provisional) includes working capital borrowings of Rs.16.22 crore, ECB of Rs.5.82 crore, unsecured loan from promoters of Rs.14.70 crore and redeemable preference shares of Rs.6.00 crore. The total outside liabilities to tangible net worth (TOL/TNW) stood at 3.91 times as on 31 March, 2019 (Provisional) as against 2.33 times in the previous year.

Acuite believes that higher than expected increase in working capital borrowing or debt funded capex will be critical to the credit risk profile of the group.

• Experienced management and funding support from promoters

UEPL group has market presence of more than a decade in manufacturing of detectors and other industrial equipment. The company caters to diversified industries including chemical and petrochemical, oil refineries, government establishments, fumigators, pollution monitoring, waste water treatment plants, chemical plants, iron and steel plants, pharmaceutical plants, power industries, among others. UEPL was previously a division of UPL Limited, which is one of the largest generic agrochemicals and industrial chemical player in the world having presence in various segments including crop protection products, intermediates, specialty chemicals and other industrial chemicals.

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 and industrial chemical industry. The top management is ably supported by well qualified and experienced team of second line of management. UEPL group benefits from the strong financial flexibility on account of its association with UPL Limited.

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

- **Reputed clientele along with wide geographic presence**

The group earns ~40-50% of its revenue from exports. The company has wide geographic presence in more than 45 countries including USA, Germany, U.K., Spain, Mexico, South Africa, Argentina, among others. The company caters to reputed clientele including 7 Solutions BV, Netherland; Gujarat Gas Limited; Spectro Gas PTE Limited, Singapore; Excide Industries Limited among others. The company also supplies to Andhra Pradesh State Government.

Weaknesses

- **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature marked by GCA of 316-387 days over the last three years ending in FY2019 (Provisional). Due to the long manufacturing cycle of 2-3 months depending on the specifications, UEPL has to maintain inventory of finished goods in order to cater orders in time bound manner. Further, the group has high inventory due to wide range of products offered by the company. Around 50 percent of the revenue is reported during the last quarter of the year leading to high amount of debtor days at the year end with debtor of 122 days for FY2019 (Provisional) as against 93 days in the previous year. Further, the average cash credit limit utilisation stood at around 95 percent during the last six months as on 31 May, 2019.

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

UEPL group executes tender based contracts 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.

Liquidity Position

UEPL group has adequate liquidity supported by funding from promoters in the form of unsecured loans on need basis. The company has debt repayment obligation of Rs.5.82 crore in FY19-20 which is mainly supported from unsecured loan infusion from promoters during FY19. The NCA stood at 1.51 crore for FY 19. The working capital limit of the company remains ~95 percent utilised during the last six months ended May 2019. The company maintained unencumbered cash and bank balances of Rs.2.04 crore as on March 31, 2019 (Provisional). The current ratio stood moderate at 1.30 times as on March 31, 2019 (Provisional).

Acuite believes that the liquidity is likely to remain adequate over the medium term on account of financial support from promoters.

Outlook: Stable

Acuite 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.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 53.21 | 35.28 | 37.59 |
| EBITDA | Rs. Cr. | 4.59 | -2.19 | 3.10 |
| PAT | Rs. Cr. | -1.76 | -8.23 | -1.69 |
| EBITDA Margin | (%) | 8.62 | -6.21 | 8.25 |
| PAT Margin | (%) | -3.31 | -23.33 | -4.50 |
| ROCE | (%) | 3.91 | -8.95 | 0.52 |
| Total Debt/Tangible Net Worth | Times | 3.33 | 2.95 | 1.72 |
| PBDIT/Interest | Times | 1.32 | -0.84 | 1.64 |
| Total Debt/PBDIT | Times | 7.85 | -21.51 | 10.54 |
| Gross Current Assets (Days) | Days | 316 | 377 | 387 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|--------------------------------|
| 06-Apr-2018 | Cash Credit | Long Term | 16.00 | ACUITE BBB / Stable (Assigned) |
| | External Commercial Borrowings | Long Term | 9.00 | ACUITE BBB / Stable (Assigned) |
| | Letter of Credit | Short Term | 3.00 | ACUITE A3+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|---------------------------------------|------------------|----------------|----------------|-----------------------------------|----------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 19.00 (Enhanced from Rs.16.00 Cr) | ACUITE BBB / Stable (Reaffirmed) |
| External commercial borrowings (ECBs) | Not Applicable | Not Applicable | Not Applicable | 5.82 (Reduced from Rs.9.00 Cr) | ACUITE BBB / Stable (Reaffirmed) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE A3+ (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 0.18 | ACUITE BBB / Stable (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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