

Press Release

Uniphos Envirotronic Private Limited

September 04, 2020



Rating Reaffirmed, Assigned & Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.24.57 crore bank facilities and assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.3.43 crore bank facilities of Uniphos Envirotronic Private Limited (UEPL). The outlook is '**Stable**'.

The rating continues to derive comfort from the 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 private limited company in 2010. The company manufactures and trades a 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.

About the Group

The Uniphos Group (UG) consists of two companies, i.e. Uniphos Envirotronic Private Limited (UEPL) and Uniphos Envirotronic Inc., USA.

Texas based, Uniphos Envirotronic Inc., is a USA based wholly owned subsidiary of UEPL. This company is a marketing arm of UEPL and also engaged in the same business of manufacturing and trading of a wide range of detectors and safety products.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management with established track record of operations**

UEPL group has a market presence of more than a decade in manufacturing and trading of detectors and other industrial equipment. The group caters to diversified industries including chemical and petro-chemical, 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 a presence in various segments including crop protection products, intermediates, speciality 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 a well-qualified and experienced team of the second

line of management. UEPL group benefits from the strong financial flexibility on account of its association with UPL Limited.

Acuité believes that the group will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by tangible net worth of Rs.12.36 crore as on March 31, 2020 (Provisional) as compared to Rs.10.93 crore as on March 31, 2019. The increase in net worth is on account of net profits obtained by the group in FY2020 (Provisional). The debt to equity ratio remained high at 3.08 times as on March 31, 2020 (Provisional) compared to 3.92 times as on March 31, 2019. The total debt of Rs.38.02 crore as on March 31, 2020 (Provisional) includes working capital borrowings of Rs.18.16 crore, unsecured loan from promoters of Rs.13.70 crore and redeemable preference shares of Rs.6.00 crore. Interest Coverage Ratio improved to 2.01 times in FY2020 (Provisional) as against 1.58 times in FY2019. The net cash accruals have also increased to Rs.4.02 crore in FY2020 (Provisional) as compared to Rs.1.47 crore in FY2019 on account of an increase in net profit of the group in FY2020 (Provisional). The total outside liabilities to tangible net worth (TOL/TNW) stood at 4.47 times as on 31 March, 2020 (Provisional) as against 5.35 times in the previous year.

Acuité believes that the financial risk profile of the group will remain moderate over the medium term in the absence of any major debt-funded capex plans.

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

The group earns ~40-50% of its revenue from exports. The company UEPL has a 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 group are working capital intensive in nature marked by GCA days of 291 days in FY2020 (Provisional) as compared to 277 days in FY2019. The deterioration in GCA days was on account of an increase in inventory levels of 205 days in FY2020 (Provisional) as against 163 days in FY2019. Due to the long manufacturing cycle of 2-3 months depending on the specifications, UEPL has to maintain an inventory of finished goods in order to cater orders in time bound manner. Subsequently, the debtor days stood at 83 days in FY2020 (Provisional) as compared to 96 days in FY2019. Further, the average cash credit limit utilisation stood at around 90 percent during the last six months ended 30 June, 2020.

Acuité believes that the ability of the group to manage its working capital cycle will be a key rating sensitivity.

- **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: Adequate

UEPL group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.02 crore in FY2020 (Provisional) while its maturing debt obligations was Rs.0.03 crore during the same period. The cash accruals of the company are estimated to remain in the range of Rs.3.66-5.22 crore during FY2021-23, while its repayment obligation are estimated to be in the range Rs.0.03-1.20 crore. The working capital operations of the company are intensive, marked by Gross Current Asset (GCA) days of 291 days in FY2020 (Prov.). The company maintains unencumbered cash and bank balances of Rs.1.62 crore as on March 31, 2020 (Prov.). The current ratio stands at 1.35 times as on March 31, 2020 (Prov.). Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual against repayments over the medium term.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Outlook: Stable

Acuité 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 group 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	50.16	53.29
PAT	Rs. Cr.	1.64	(1.80)
PAT Margin	(%)	3.27	(3.38)
Total Debt/Tangible Net Worth	Times	3.08	3.92
PBDIT/Interest	Times	2.01	1.58

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Jun-2019	Cash Credit	Long Term	19.00	ACUITE BBB / Stable (Reaffirmed)
	External Commercial Borrowings	Long Term	5.82	ACUITE BBB / Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.18	ACUITE BBB / Stable (Assigned)
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	ACUITE BBB / Stable (Reaffirmed)
External commercial borrowings (ECBs)	Not Available	Not Applicable	Not Available	5.82	ACUITE BBB (Withdrawn)
Working Capital Term Loan	Not Available	Not Applicable	Not Available	3.43	ACUITE BBB / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.57	ACUITE BBB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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