

Press Release

Uniphos Envirotronic Private Limited

December 03, 2021



Rating Upgraded

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	3.00		ACUITE A2 Upgraded
Bank Loan Ratings	25.00	25.00	ACUITE BBB+ Stable Upgraded	
Total	-	28.00	-	-

*Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) from '**ACUITE BBB**' (read as **ACUITE Triple B**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**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 upgrade is on account of improvement in financial risk profile of UEPL Group. UEPL Group's total income stood at Rs.48.65 Cr in FY2021 as against Rs. 50.17 Cr in FY2020. The slight decline in operating income was due to impact of Covid-19 induced lockdown in FY2021. The Group's operating margin and net margin improved to 19.68 percent and 6.34 percent respectively in FY2021 as against 15.80 percent and 3.65 percent respectively in FY2020. The return on capital employed stood at 13.78 percent in FY2021 as against 11.10 percent in FY2020. The gearing and TOL/TNW improved to 2.56 times and 3.86 times respectively as on March 31, 2021 as against 3.03 times and 4.39 times respectively as on March 31, 2020. The interest coverage improved 2.56 times in FY2021 as against 2.03 times in FY2020. The rating continues to derive comfort from the extensive experience of the promoters in the industry and its association with UPL Limited.

About the Company

Gujarat based, UEPL is promoted by Mr. Rajnikant Devidas Shroff and his wife, Mrs. Sandra Rajnikant Shroff. Prior to its incorporation in 2007, UEPL was operated under the name of Chemo Electronic Laboratory (CEL) and had been operational since 1993. The company manufactures and trades in 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 and also provides services in the nature of annual maintenance contracts for its products.

About the Group

The UEPL Group consists of two companies, i.e. Uniphos Envirotronic Private Limited (UEPL) and Uniphos Envirotronic Inc., USA (UEI). Texas based, Uniphos Envirotronic Inc., is a USA based wholly owned subsidiary of UEPL. This company is a marketing arm of UEPL and is 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 also benefits from 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 marked by modest capital structure and moderate debt protection metrics. The Group's tangible net-worth stood at Rs.15.67 Cr in FY2021 as against Rs.12.54 Cr in FY2020. The improvement is on account of accretion of profits to reserves. The overall gearing improved to 2.56 times in FY2021 as against 3.03 times in FY2020. The total debt outstanding as on March 31, 2020 stood at Rs. 40.04 Cr which comprised of long term borrowings of Rs. 9.55 Cr, unsecured loan from directors/group companies Rs. 11.95 Cr and short term debt of Rs. 18.54 Cr. The long term borrowings includes redeemable preference shares capital and bank borrowings. The Debt to EBITDA improved to 4.07 times in FY2021 as against 4.60 times in FY2020. The TOL/TNW also marked an improvement in FY2021 as it stood at 3.86 times as on March 31, 2021 as against 4.39 times as on March 31, 2019. The interest coverage improved to 2.56 times in FY2021 as against 2.03 times in FY2020. The DSCR improved to 2.42 times in FY2021 as against 0.84 times in FY2020.

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 geographical 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.

Acuité believes that UEPL group will continue to benefit from its reputed clientele and wide geographical presence over the medium term.

Weaknesses

> Working capital intensive nature of operations

The Group has a stretched working capital cycle, as is reflected from its GCA days of 373

days as on March 31, 2021 as against 289 days as on March 31, 2020. The GCA days are driven by high inventory days and debtor days. The inventory days rose to 233 days as on March 31, 2021 as against 205 days as on March 31, 2020. 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. The debtor days stood at 99 days as on March 31, 2021 as against 82 days as on March 31, 2020. The eight months average bank limit utilisation of UEPL group stood at 91 percent through the period ended October, 2021. The creditor days stood at 72 days as on March 31, 2021 as against 123 days as on March 31, 2020.

Acuité believes UEPL Group's ability to maintain its working capital cycle without further elongation will remain 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.5.51 crore in FY2021 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.5.07-6.20 crore during FY2022-23, while its repayment obligation are estimated to be in the range Rs.0.89-3.53 crore including the repayment of unsecured loans from directors and group companies. The working capital operations of the company are intensive, marked by Gross Current Asset (GCA) days of 373 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.8.41 crore as on March 31, 2021. The current ratio stands at 1.46 times as on March 31, 2021. The average bank limit utilisation of its fund based facilities from last eight months ended October, 2021 stood at 91 percent. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual against scheduled repayments.

Rating Sensitivities

- > Improvement in scale of operations while maintaining profitability and capital structure.
- > 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	48.65	50.17
PAT	Rs. Cr.	3.08	1.83
PAT Margin	(%)	6.34	3.65
Total Debt/Tangible Net Worth	Times	2.56	3.03

PBDIT/Interest	Times	2.56	2.03
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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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Sep 2020	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	5.82	ACUITE BBB (Withdrawn)
	Working Capital Term Loan	Long Term	3.43	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	19.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.57	ACUITE BBB Stable (Reaffirmed)
19 Jun 2019	Term Loan	Long Term	5.82	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	19.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short Term	0.18	ACUITE A3+ (Reaffirmed)
06 Apr 2018	Cash Credit	Long Term	16.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	3.00	ACUITE A2 Upgraded (from ACUITE A3+)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.00	19.00	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.57	2.57	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Axis Bank	Not Applicable	Working Capital Term Loan	01-08-2020	Not Applicable	31-07-2024	3.43	3.43	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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