

## Press Release

### Uniphos Envirotronic Private Limited

February 01, 2023



## Rating Reaffirmed

| Product                               | Quantum<br>(Rs. Cr) | Long Term Rating                     | Short Term Rating         |
|---------------------------------------|---------------------|--------------------------------------|---------------------------|
| Bank Loan Ratings                     | 25.00               | ACUITE BBB+   Stable  <br>Reaffirmed | -                         |
| Bank Loan Ratings                     | 3.00                | -                                    | ACUITE A2  <br>Reaffirmed |
| Total Outstanding<br>Quantum (Rs. Cr) | 28.00               | -                                    | -                         |
| Total Withdrawn Quantum<br>(Rs. Cr)   | 0.00                | -                                    | -                         |

## Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.28.00 crore bank facilities of Uniphos Envirotronic Private Limited (UEPL). The outlook is '**Stable**'.

### Rationale for Reaffirmation

The rating reaffirmation takes into account the established track record of operations of the group and the extensive experience of the promoters. The rating also factors in the management and financial support extended by the promoters of United Phosphorus Limited (UPL) who are also the directors of the group. The rating also factors the moderate financial risk profile along with moderate improvement in scale of operations and reputed clientele with wide geographical presence of the group. UEPL Group's total income stood at Rs.56.72 Cr in FY2022 as against Rs.48.65 Cr in FY2021. Also, the operating profit margin improved to 22.71 percent in FY2022 as against 19.68 percent in FY2021. However, the rating is constrained by working capital's intensive nature of operations and projection execution risk associated with its projects.

### About 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.

### **Standalone (Unsupported) Rating**

ACUITE BBB-/Stable/ACUITE A3

### **Analytical Approach**

#### **Extent of Consolidation**

- Full Consolidation

#### **Rationale for Consolidation or Parent / Group / Govt. Support**

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. To arrive at the final rating, Acuité has also notched up the standalone rating by factoring in the management and financial support extended by the common promoters of United Phosphorus Limited (UPL).

### **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 stood moderate, marked by modest capital structure and moderate debt protection metrics. The tangible net worth of the group stood at Rs.24.01 crore as on 31 March 2022 as against Rs.15.67 crore as on 31 March, 2021. The total debt of the group stood at Rs.36.92 crore which includes short-term debt of Rs.18.49 crore, long-term debt of Rs.8.57 crore, unsecured loans of Rs.9.00 crore and CPLTD of Rs.0.86 crore as on 31 March, 2022. The unsecured loans from directors and group companies are serviced interest at 10 percent per annum. Thus, in order to save on its borrowing costs, the Group plans to repay its unsecured loans and directors over the medium term. The gearing (debt-equity) of the group stood at 1.54 times as on 31 March 2022 as compared to 2.56 times as on 31 March, 2021. Interest Coverage Ratio of the group stood at 5.07 times for FY2022 as against 2.56 times for FY2021. Debt Service Coverage Ratio (DSCR) of the group stood at 3.81 times in FY2022 as against 2.42 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) of the group stood at 2.34 times as on 31 March, 2022 as against 3.86 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) of the group stood at 0.29 times for FY2022 as against 0.14 times for FY2021.

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% 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 working capital management of the group is intensive marked by GCA days of 331 days in FY2022 as against 373 days in FY2021. The GCA days are driven by high inventory days and debtor days. The inventory days stood at 213 days in FY2022 as against 233 days in FY2021. Due to the long manufacturing cycle of 2-2.5 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 84 days in FY2022 as against 99 days in FY2021. UEPL generally gives a credit period of 90-120 days to its customers. The majority of the orders which UEPL group caters to are tender based contracts of public sector units and private players. Most of the debtors are recovered within 90- 120 days on an average of raising the bill. The Creditor days stood at 57 days in FY2022 as against 72 days in FY2021. However, UEPL generally allows a credit period within 90 days from its suppliers.

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.

### **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.

### **Liquidity Position Adequate**

The group's liquidity position is adequate, marked by healthy net cash accruals against its maturity debt obligations. The group generated net cash accruals in the range of Rs.4.20-Rs.10.65 Crore from FY 2020- 2022 against its maturity repayment obligations in the range of Rs.0.03-Rs.0.89 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.13.59-18.00 crores against the maturing repayment obligations of Rs.1.14 crore over the medium term. However, the working capital management of the group remained intensive marked by high GCA days of 331 days in FY2022 as against 373 days in FY2021. Also, the average of utilization of the working capital facilities stood at 80%-90% per cent for past 09 months ended December 2022. The group maintains unencumbered cash and bank balances of Rs.11.12 crore as on March 31, 2022. The current ratio of the group stands at 1.64 times as on March 31, 2022 as against 1.46 times as on 31 March, 2021.

Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual against maturing debt obligations.

### **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.

## Other Factors affecting Rating

None

## Key Financials

| Particulars                   | Unit    | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 56.72          | 48.65          |
| PAT                           | Rs. Cr. | 8.23           | 3.08           |
| PAT Margin                    | (%)     | 14.51          | 6.34           |
| Total Debt/Tangible Net Worth | Times   | 1.54           | 2.56           |
| PBDIT/Interest                | Times   | 5.07           | 2.56           |

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

None

## Any Other Information

None.

## Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

## Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook   |
|-------------|--------------------------------|------------|-----------------|--|
| 03 Dec 2021 | Working Capital Term Loan      | Long Term  | 3.43            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Bank Guarantee                 | Short Term | 3.00            | ACUITE A2 (Upgraded from ACUITE A3+)                     |
|             | Proposed Bank Facility         | Long Term  | 2.57            | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
|             | Cash Credit                    | Long Term  | 19.00           | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable) |
| 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)                         |

## Annexure - Details of instruments rated

| Lender's Name  | ISIN           | Facilities                       | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating                            |
|----------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|-----------------------------------|
| Axis Bank      | Not Applicable | Bank Guarantee (BLR)             | Not Applicable   | Not Applicable | Not Applicable | Simple           | 3.00              | ACUITE A2   Reaffirmed            |
| Axis Bank      | Not Applicable | Cash Credit                      | Not Applicable   | Not Applicable | Not Applicable | Simple           | 19.00             | ACUITE BBB+   Stable   Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | Simple           | 2.57              | ACUITE BBB+   Stable   Reaffirmed |
| Axis Bank      | Not Applicable | Working Capital Term Loan        | 01 Aug 2020      | 9.00           | 31 Jul 2024    | Simple           | 3.43              | ACUITE BBB+   Stable   Reaffirmed |

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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