

## Press Release

### Umiya Cast LLP

October 18, 2019



#### Rating Upgraded and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.8.21 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB-/Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and reaffirmed short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.8.21 crore bank facilities of Umiya Cast LLP (UCL). The outlook is '**Stable**'.

The upward revision in the rating is driven by improvement in operating performance on account of optimal utilisation of installed capacity in the initial year of operation. Further, the firm has efficiently managed its working capital cycle as reflected in GCA of 28 days.

Gujarat-based, Umiya Cast LLP was incorporated in 2017 as a Limited Liability Partnership firm and the commercial operation commenced from February 2018. The firm is engaged in manufacturing of MS steel ingots and billets with installed capacity of 55MT/day. The firm comprises of 20 partners with 4 designated partners, Mr. Chirag Patel, Mr. Alkesh Patel, Mr. Vikrant Patel and Mr. Jagannath Patel.

#### About the group company

Gujarat-based, Umiya Metals Private Limited was incorporated in 2010 and is engaged in manufacturing of MS ingots with installed capacity of 40 tons/day. The company is managed by Mr. Chirag Patel, Mr. Alkesh Patel, Mr. Jagannath Patel and Mr. Alpesh Patel.

#### Analytical Approach

Acuité has consolidated business and financial risk profile of Umiya Cast LLP and Umiya Metals Private Limited hereinafter referred to known as Umiya Group (UG) to arrive at the rating. The consolidation is on account of similarity in line of business, significant operational linkages and common set of management controlling both the entities. Further, Umiya Metal Private Limited has extended corporate guarantee to Umiya Cast LLP. Extent of consolidation: Full.

#### Key Rating Drivers

##### Strengths

- Experienced management and established relationship with rolling mills and other units**

The Promoters have experience of a decade in manufacturing of ingots and billets, ceramic products and rolling mill business. This has resulted in establishing healthy relationship with customers and suppliers resulting in established market for its product.

Acuité believes that the promoters' entrepreneurial experience and healthy relationship with customers will support its business risk profile over the medium term.

- Efficient management of working capital cycle**

UG's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 28 days for FY2019 (Provisional). UG maintains raw material inventory of around 10 days and finished goods inventory of just ~5-10 days as the work in process cycle time is low. UG extends a credit period of around 15-30 days to its customers. On the other hand, UG gets 10-15 days credit from its suppliers. As a result, the reliance on working capital limits is low and utilisation of its bank lines at an average of 30 per cent over the last six months through September 2019.

Acuite expects the working capital management to remain efficient over the medium term on

account of the low inventory levels maintained by UG and limited credit period extended to its customers.

- **Moderate financial risk profile**

UG has moderate financial risk profile marked by moderate net worth, gearing and debt protection matrices. The net worth stood at Rs. 4.76 crore as on 31 March 2019 (Provisional) as against Rs. 4.28 crore as on 31 March 2018. The gearing improved to 1.91 times as on 31 March 2019 (Provisional) from 2.17 times as on 31 March 2018. The total debt of Rs. 9.08 crore as on 31 March 2019 (Provisional) mainly consists of term loan of Rs. 4.88 crore, unsecured loans of Rs. 1.72 crore and working capital borrowings of Rs. 2.48 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved and stood at 2.20 times as on 31 March, 2019 (provisional) as against 3.00 times as on 31 March, 2018 on account of accretion to reserves during FY2019. Interest Coverage Ratio (ICR) stood healthy at 2.72 times and Debt Service Coverage Ratio DSCR of 1.44 times in FY2019 (provisional).

Acuité believes that the group will maintain its financial risk profile over the near to medium term in absence of major debt funded capex plans and healthy working capital cycle.

### **Weaknesses**

- **Susceptibility of operating margins to volatility in raw material prices**

UG manufactures MS ingots and billets, which are sold to rolling mills located in the vicinity. The UG has limited bargaining power due to high competitive pressures within the industry. The UG on the other hand procures raw materials through domestic markets, the prices of which have remained volatile in the past. Further, UG has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability as reflected in 3.86-3.27 per cent over the last three years.

Acuité believes that the operating margins of UG is likely to remain susceptible to volatility in raw material prices over the medium term.

### **Liquidity Position: Adequate**

The bank limit utilisation was marginally utilized for the six months ended September 30, 2019. Utilisation is expected to remain low on account of lower working capital requirement as reflected in GCA of 28 days during FY2019 (Provisional). The expected cash accrual is Rs. 2.00-2.60 crores over FY20-22 and is likely to be sufficient against term debt obligation of Rs. 0.93 crore through FY20-22, respectively. The remaining accrual will cushion liquidity. The current ratio was moderate at 1.54 times as on March 31, 2019 (Provisional). Further, the promoters are resourceful to infuse fund on need basis. The unencumbered cash and bank balances stood at Rs. 0.03 crore as on March 31, 2019 (Provisional).

### **Rating Sensitivities**

- Substantial improvement in scale of operation while maintaining operating profitability of around 3-4 percent over the medium term.
- Significant elongation in working capital cycle resulting in deteriorating liquidity position.

### **Material Covenants**

None

### **Outlook: Stable**

Acuité believes UG will maintain 'Stable' business risk profile in the medium term on account of its experienced management and efficient working capital management. The outlook may be revised to 'Positive' in case the UG registers higher than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the UG registers lower-than-expected growth in revenues and profitability or in case of deterioration in the UG's financial risk profile or higher than expected working capital requirements.

### About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.67	43.18	26.81
EBITDA	Rs. Cr.	2.95	1.58	1.04
PAT	Rs. Cr.	0.59	0.27	0.35
EBITDA Margin	(%)	3.05	3.66	3.86
PAT Margin	(%)	0.61	0.62	1.30
ROCE	(%)	12.79	10.01	23.51
Total Debt/Tangible Net Worth	Times	1.91	2.17	2.61
PBDIT/Interest	Times	2.72	3.34	3.47
Total Debt/PBDIT	Times	3.07	5.84	2.04
Gross Current Assets (Days)	Days	28	72	31

### 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>
- 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/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-July-2018	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (Assigned)
	Term loan	Long Term	6.05	ACUITE BB-/Stable (Assigned)
	Bank Guarantee/ Letter of Guarantee	Short Term	0.66	ACUITE A4+ (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	0.25 (Revised from Rs.1.50 cr)	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.14 (Revised from Rs.6.05 cr)	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
Bank Guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.56 (Revised from Rs.0.66 cr)	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.26	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)

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### About Acuité Ratings & Research:

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