

Press Release

UPAJ INVESTMENT AND FINANCE PRIVATE LIMITED

November 20, 2019



Rating Downgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 8.00 Cr. |
| Long Term Rating | ACUITE B- / Outlook: Stable (Downgraded from ACUITE B/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE B**' (**read as ACUITE B**) to '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs. 8.00 crore bank facilities of UPAJ INVESTMENT AND FINANCE PRIVATE LIMITED (UPAJ). The outlook is '**Stable**'.

Rating downgrade reflects less than expected growth in scale of operations and profitability. Coupled with weak financial risk profile and changes in the government regulations related to plastic which are expected to affect the business. Revenues stood at Rs.1.50 crore in FY2019 as against Acuité's expectations of Rs.2.84 crore in FY2019. Further, company registered net loss of Rs.2.07 crore in FY2019. However, the rating is supported by experienced management.

UPAJ Investments & Finance Private Limited (UIFPL), incorporated in the year 1990, was engaged in investing in shares & stocks of companies for long term purposes. However, in the year 2018, the company ventured into manufacturing punnets & clamshells under the same brand name. The said products are widely used in packaging fruits, eggs, meat & other perishable products. The manufacturing unit is located at Vapi, Gujarat & warehouse unit at Panvel. The company has obtained necessary registrations for starting the manufacturing and the same was started by December, 2018. The company plans to export majority of its products to Mediterranean Countries, where Fruits / Vegetables are grown. To name a few, Spain, Italy, South Africa, Mexico, California, etc.

Analytical Approach

Acuité has considered standalone business and financial risk profile of UPAJ to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter directors Mr. Ghanshyamlal Parekh, Mr. Janak Parekh & Mr. Tejas Parekh have an extensive experience of handling different businesses. They are engaged in the business of manufacturing ampoules, tubes, glass vials, glass bottles, punnets & clamshells, through various entities like M/s Bombay Glass Blowing Industries, Injecta Ampoule Private Limited & Upaj Polycon Private Limited.

Acuité believes that the experience of all the promoters of running various businesses successfully backed with the support of technical expertise will benefit UIFPL.

Weaknesses

- **Initial stage of operations**

UIFPL has commenced its operations from December, 2018. The company has reported modest revenue marked by operating income of Rs.1.50 crore in FY2019. The operating margins of the company stood negative at 50.59 percent in FY2019. Further, profit after tax (PAT) was negative marked by Rs.2.07 crore in FY2019 as against profit of Rs.0.42 crore in FY2018.

Acuité believes that the company's ability to scale up operations will remain crucial in maintaining a stable credit risk profile.

• **Weak financial risk profile**

The financial risk profile is stretched marked by modest net worth and weak debt protection measures and high gearing. The net worth of the company has deteriorated to Rs.3.81 crore as on 31 March 2019 from Rs.5.89 crore as on 31 March 2018. The gearing (debt to equity) of the company stood high at 1.59 times as on March 31 2019. Total debt of Rs.6.04 crore consists of term loan of Rs.4.98 crore, unsecured loans of Rs.0.98 crore and working capital facility of Rs.0.07 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.80 times as on 31 March 2019 as against 0.01 times as on 31 March 2018. Interest Coverage Ratio (ICR) deteriorated to negative 1.43 times in FY2019 from 5.44 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood negative at 0.21 times as on 31 March 2019. Debt Service Coverage Ratio (DSCR) deteriorated to negative 1.60 times in FY2019 from 5.44 times in FY2018.

• **Intensive working capital operations**

The working capital of UPAJ is intensive in nature marked by high Gross Current Asset (GCA) days of 598 for FY2019. This is on account of high debtor days which stood at 129 for FY2019, further inventory days stood at 9 in FY2019. However, the reliance on working capital facility is high, it is fully utilized on an average for last 6 months ending October, 2019.

Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

• **Stiff Competition from existing players**

The industry of manufacturing punnets & clamshells is marked by the presence of various small to large sized players who have extensive experience in the said industry. UIFPL's ability to compete with these players and ability to sustain will remain one of the most crucial criteria.

Rating Sensitivity

- Significant Increase in scale of operations coupled with improvement in profitability.
- Deterioration in working capital operations marked by high Gross Current Assets (GCA) days.

Material Covenants

None.

Liquidity Position

UPAJ has poor liquidity marked by negative net cash accruals. The cash accruals stood negative at Rs.1.29 crore in FY2019 as against Rs.0.42 crore in FY2018. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 598 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended October, 2019. The company maintains unencumbered cash and bank balances of Rs.0.15 crore as on March 31, 2019. The current ratio of the company stands at 3.10 times as on March 31, 2019.

Outlook: Stable

Acuité believes that REPL will maintain a 'Stable' business profile in the medium term, while benefitting from its experienced management and growth in operations. The outlook may be revised to 'Positive' if REPL shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 1.50 | - | 1.25 |
| EBITDA | Rs. Cr. | (0.76) | (0.09) | 1.21 |
| PAT | Rs. Cr. | (2.07) | 0.42 | 1.21 |
| EBITDA Margin | (%) | (50.59) | - | 96.58 |
| PAT Margin | (%) | (137.84) | - | 96.57 |
| ROCE | (%) | (18.81) | 10.94 | 41.35 |
| Total Debt/Tangible Net Worth | Times | 1.59 | - | - |
| PBDIT/Interest | Times | (1.43) | 5.44 | - |
| Total Debt/PBDIT | Times | (8.54) | - | - |
| Gross Current Assets (Days) | Days | 598 | - | 437 |

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

None.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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 |
|-------------|---------------------------------|-----------|------------------|------------------------------|
| 31-Aug-2018 | Cash Credit | Long Term | 1.00 | ACUITE B / Stable (Assigned) |
| | Term Loan | Long Term | 6.00 | ACUITE B / Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.00 | ACUITE B / Stable (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 | 1.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |

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About Acuité Ratings & Research:

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