

Press Release

Upaj Investment And Finance Private Limited

September 04, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs.8.00 crore bank facilities of UPAJ Investments & Finance Private Limited (UPAJ). The outlook is '**Stable**'.

Incorporated in 1990, UPAJ Investments & Finance Private Limited 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 day to day operations is managed by its directors, Mr. Ghanshyam Hiralal Parekh, Mr. Janak Ghanshyamlal Parekh and Mr. Tejas Uppal Parekh. 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.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experience Management

The promoter directors Mr. Ghanshyamlal Parekh, Mr. Janak Parekh & Mr. Tejas Parekh have 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. This has helped the company to maintain a healthy relationship with customers and suppliers.

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

Weaknesses

• Modest scale of operations and negative profitability

UPAJ has commenced its operations from December, 2018. The company has reported modest revenue marked by operating income of Rs.5.77 crore (Provisional) in FY2020 as against Rs.1.50 crore in FY2019. The operating margins of the company stood negative at 20.95 percent (Provisional) in FY2020 as against negative 50.59 per cent in FY2019. Further, profit after tax (PAT) margin was negatively marked by 33.52 per cent (Provisional) in FY2020 as against negative 137.84 per cent in FY2019.

Acuité believes that the company's scale of operations and profitability will remain muted during FY2021 due to COVID-19, which has resulted in the shutdown in the business during nationwide lockdown and decline in demand.

• Weak financial risk profile

The financial risk profile is weak marked by low net worth and weak debt protection measures and high gearing. The net worth of the company has deteriorated to Rs.1.87 crore (Provisional) as on 31 March 2020 from Rs.3.81 crore as on 31 March 2019. The gearing (debt to equity) of the company stood high at 4.12 times (Provisional) as on March 31 2020 as against 1.59 times as on 31 March, 2019. Total debt of Rs.7.72 crore consists of a term loan of Rs.4.21 crore, unsecured loans of Rs.2.61 crore

and working capital facility of Rs.0.89 crore as on 31 March 2020 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) deteriorated to 4.96 times (Provisional) as on 31 March 2020 from 1.80 times as on 31 March 2019. Interest Coverage Ratio (ICR) stood at negative 1.57 times (Provisional) in FY2020 as against negative 1.43 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood negative at 0.25 times (Provisional) as on 31 March 2020 as against negative 0.21 times as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood negative at 1.57 times (Provisional) in FY2020 as against 1.60 times in FY2019.

Acuité believes that the financial risk profile will remain weak in the medium term because of the expectation of deterioration in the business.

• **Intensive working capital operations**

The working capital of UPAJ is intensive in nature marked by high Gross Current Asset (GCA) days of 291 (Provisional) for FY2020 as against 598 for FY2019. This is on account of high debtor days which stood at 166 (Provisional) for FY2020 as against 129 for FY2019; further inventory days stood at 20 (Provisional) in FY2020 as against 9 in FY2019. Further, the reliance on the working capital facility is high, it is fully utilized on an average for the last 6 months ending July, 2020.

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 the ability to sustain will remain one of the most crucial criteria.

Liquidity Position: Poor

UPAJ has poor liquidity, marked by negative net cash accruals. The cash accruals stood negative at Rs.1.93 crore (Provisional) in FY2020 as against negative Rs.1.29 crore in FY2019. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 291 (Provisional) in FY2020. 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 July, 2020. The company maintains unencumbered cash and bank balances of Rs.0.20 crore (Provisional) as on March 31, 2020. The current ratio of the company stands at 1.97 times (Provisional) as on March 31, 2020.

Outlook: Stable

Acuité believes that UPAJ will maintain a 'Stable' business profile in the medium term while benefitting from its experienced management. The outlook may be revised to 'Positive' if UPAJ 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant deterioration in financial risk profile and working capital operations of the company.

Material Covenants

None

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|---------------------------------|-----------|--------------------|---------------|
| Operating Income | Rs. Crore | 5.77 | 1.50 |
| Profit after tax (PAT) | Rs. Crore | (1.93) | (2.07) |
| PAT margin | % | (33.52) | (137.84) |
| Total debt / Tangible Net worth | Times | 4.12 | 1.59 |
| PBDIT / Interest | Times | (1.57) | (1.43) |

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>

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.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|--------------|--|
| 20-Nov-2019 | Cash Credit | Long Term | 1.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |
| | Term Loan | Long Term | 6.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |
| | Proposed Bank Facility | Long Term | 1.00 | ACUITE B-/Stable (Downgraded from ACUITE B/Stable) |
| 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 |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------------------|
| Term Loan | Not Available | Not Applicable | Not Available | 4.33 | ACUITE B-/Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE B-/Stable (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.67 | ACUITE B-/Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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