

Press Release

Upaj Investment And Finance Private Limited

January 17, 2023

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE B- Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	8.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from '**ACUITE B**' (read as **ACUITE B**) on the Rs.8.00 crore bank facilities of Upaj Investment and Finance Private Limited (UIFPL). The outlook is '**Stable**'.

Rationale for rating downgrade

The rating downgrade takes into account UIFPL's below average financial risk profile marked by low networth, high gearing and average debt protection metrics. The rating is further constrained by the company's elongated working capital cycle and declining profitability margins. Going forward, ability of the company to improve its financial risk profile, restrict any further elongation in working capital cycle and to improve its scale of operations while improving operating margin and achieve profitability will remain a key rating sensitivity factor.

About the Company

UIFPL, incorporated in 1990, was initially engaged in investing in shares & stocks of companies for long term purposes. However, in the year 2018, the company ventured into manufacturing of punnets & clamshells under the same brand name which are widely used in packaging of fruits, eggs, meat & other perishable products. The day-to-day operations is managed by its directors, Mr. Ghanshyamlal Hiralal Parekh, Mr. Janak Ghanshyamlal Parekh and Mr. Tejas Uppal Parekh. The company has its registered office in Mumbai, Maharashtra and the manufacturing unit is at Vapi, Gujarat.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of UIFPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management

UIFPL is promoted and managed by Mr. Ghanshyamlal H. Parekh, Mr. Janak G. Parekh & Mr. Tejas U. Parekh. The promoter directors have extensive experience of nearly three decades of

handling different businesses of manufacturing ampoules, tubes, glass vials, glass bottles, punnets & clamshells through various group entities. The promoters are also supported by a team of experienced professionals in managing day to day operations of UIFPL. The extensive experience of the promoter directors has enabled UIFPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that UIFPL will continue to benefit from its experienced management.

Weaknesses

Below average financial risk profile

Financial risk profile of UIFPL is below average marked by low networth, high gearing and average debt protection metrics. The networth of the company got declined to Rs.4.53 Cr as on 31st March, 2022 as against Rs.5.61 Cr as on 31 March, 2021 on account of accumulated losses on a year-on-year basis. The gearing (debt-equity) stood high at 2.87 times as on 31st March, 2022 as against 0.89 times as on 31 March, 2021 on account of subsequent increase in the long term bank borrowings and unsecured loans from directors. The total debt of Rs.13 Cr as on 31st March, 2022 consists of long term bank borrowings of Rs.10 Cr and unsecured loans from directors of Rs.3 Cr. The company availed term loans during the year towards its capex plan to increase its overall production capacity. The gearing of the company is expected to remain high over the medium term.

The interest coverage ratio and DSCR stood improved at 1.67 times and 1.09 times for FY2022 as against 1.28 times and 0.64 times for FY2021. The Net Cash Accruals to Total debt stood lower at 0.03 times for FY2022 as against 0.06 times for FY2021. The Total outside liabilities to Tangible net worth stood high at 4.14 times for FY2022 as against 1.30 times for FY2021. The Debt-EBITDA ratio stood high at 12.17 times for FY2022 as against 5.77 times for FY2021.

Acuité believes that UIFPL's ability to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Working capital-intensive operations

The operations of UIFPL are highly working capital intensive marked by its Gross Current Assets (GCA) days of 223 days for FY2022 which stood high albeit improved against 376 days for FY2021. This is on account of its elongated receivable cycle which though remains elongated, recorded an improvement in FY2022 as it stood at 149 days as against 215 days in FY2021. The inventory cycle of the company stood at 32 days in FY2022 as against 38 days in FY2021. Apart from this, the creditor days stood high at 234 days in FY2022 as against 171 days in FY2021 on account of subsequent increase in the purchase of raw materials from the suppliers. The average bank limit utilization for 6 months' period ended October 2022 stood high at ~70 percent.

Acuité believes that UIFPL's ability to restrict any further elongation in the working capital cycle will remain key monitorable.

Declining profitability levels albeit increase in revenue

UIFPL reported an increase in its revenues of Rs.12 Cr for FY2022 as against Rs.7 Cr in FY2021 on account of increase in the actual production and quantity sold of its PET Clamshells and other types of plastic food containers to meet the rising demand of its various food packaging industry customers in both domestic and exports market.

Despite of increase in the overall revenue, the operating margin of the company has remained subdued at 8.69 percent in FY2022 as against 12.05 percent in FY2021. This is majorly on account of increase in the cost of raw materials along with increase in various other administrative and selling & distribution expenses. The net profit margin of the company continued to remain negative on a year-on-year basis on account of continued losses caused by high interest cost and depreciation.

Acuité believes that UIFPL's ability to improve its scale of operations while improving its operating margin and achieve profitability in near to medium term will remain a key rating sensitivity factor.

Rating Sensitivities

- Ability to improve financial risk profile
- Ability to restrict any further elongation in the working capital cycle
- Ability to improve scale of operations while improving profitability levels.

Material covenants

None

Liquidity position - Poor

UIFPL has poor liquidity position marked by low net cash accruals (NCA) to its maturing debt obligations and elongated working capital cycle. The company generated cash accruals in the range of Rs.0.28 Cr to Rs.0.35 Cr during FY2020 to FY2022 against its repayment obligation of Rs.0.83 Cr to Rs.1.03 during the same period. Going forward the NCA are expected in the range of Rs.0.20 Cr to Rs.0.24 Cr for period FY2023-FY2024 against its high repayment obligation of Rs.3.61 Cr to Rs.2.10 Cr for the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 223 days for FY2022 as against 376 days for FY2021 on account of elongated receivables cycle during the same period. This makes the company dependent on bank borrowings for working capital requirement. The average bank limit utilization for 6 months' period ended October 2022 stood high at ~70 percent. Current ratio stands at 1.09 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.17 Cr in FY2022.

Acuité believes that the liquidity of UIFPL is likely to remain poor over the medium term on account of generating low cash accruals against its debt obligations.

Outlook: Stable

Acuité believes that UIFPL will maintain 'Stable' outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	11.97	6.85
PAT	Rs. Cr.	(1.08)	(1.02)
PAT Margin	(%)	(8.98)	(14.94)
Total Debt/Tangible Net Worth	Times	2.87	0.89
PBDIT/Interest	Times	1.67	1.28

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>

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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Oct 2021	Proposed Bank Facility	Long Term	2.17	ACUITE B Stable (Upgraded from ACUITE B- Stable)
	Cash Credit	Long Term	1.00	ACUITE B Stable (Upgraded from ACUITE B- Stable)
	Term Loan	Long Term	4.33	ACUITE B Stable (Upgraded from ACUITE B- Stable)
	Term Loan	Long Term	0.50	ACUITE B Stable (Upgraded from ACUITE B- Stable)
04 Sep 2020	Cash Credit	Long Term	1.00	ACUITE B- Stable (Reaffirmed)
	Term Loan	Long Term	4.33	ACUITE B- Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	2.67	ACUITE B- 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
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE B- Stable Downgraded (from ACUITE B)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.38	ACUITE B- Stable Downgraded (from ACUITE B)
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.84	ACUITE B- Stable Downgraded (from ACUITE B)
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.78	ACUITE B- Stable Downgraded (from ACUITE B)

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About Acuité Ratings & Research

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