

Press Release

Universal Flexibles Private Limited

December 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 41.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 41.00 crore bank facilities of Universal Flexibles Private Limited (UFPL). The outlook is '**Stable**'.

Incorporated in 1976 by Mr. K R S Narayanan, UFPL is a Bangalore (Karnataka) based company engaged in manufacture of Hydraulic Hose Assembly and Hose Fittings. They find application in hydraulic and pneumatic line of industries. The company has an installed capacity to produce 2.52 lakh hose assemblies and 9.6 million hose fittings at its facility located in Bangalore. UFPL reported revenues of Rs.39.40 crore and profit-after-tax (PAT) of Rs.1.78 crore in the financial year 2018 against Rs.24.21 crore and PAT of Rs.1.23 crore in FY2017.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Universal Flexibles Private Limited and Uniflex Precision Products Private Limited (herewith referred as the group) to arrive at the rating. The consolidation was on account of common management and significant amount of operational linkages. Extent of Consolidation : Full.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The promoter, Mr. K R S Narayanan has around four decades of experience in the automobile ancillary industry. The other promoter, Mr. Venkatesh S Aiyer has around two decades of experience in the automobile ancillary industry. The group benefits from the established track record of operations for over four decades. The group has more than two decades of relationship with the major customers such as Indian Navy, Ashok Leyland Limited, VST Tillers and Tractors Limited, Volvo India Private Limited, L&T Ltd among others; it also exports to clients such as Parker Hannifin GmbH – Germany and Eaton Aeroquip LLC – USA, among others. About 25 percent of revenues are from overseas clients - USA, Germany, France and rest are from domestic clients. With the continued patronage from the clientele, the group has reported revenues of Rs.19.81 crore in FY2018, however modest in the auto ancillary industry and revenues skewed towards Government clientele. Revenues have improved at a compound annual growth rate (CAGR) of about 15 percent over three years through FY2018. For six months through September 2018, the group has generated revenues of about Rs.18.50 crore and has an outstanding order of about Rs.19.00 crore which provides revenue visibility over the next two quarters. Acuité believes that the established relationship with the clientele, and long track record of operations would drive the business profile over the medium term.

• Moderate financial risk profile

The financial risk profile is marked by high gearing, moderate net worth, however supported by comfortable debt protection metrics. The net worth of the group is modest at Rs.14.48 crore as on 31 March, 2018 (Provisional) against Rs.12.05 crore in FY2017. Gearing is high at 2.30 times (Provisional) as on March 31, 2018 as compared to 2.23 times as on March 31, 2017. Total debt includes Rs.16.29 crore of working capital debt, and about Rs.13.40 crore term loan and Rs.0.95 crore of unsecured loan.

Total outside liabilities to tangible net worth (TOL/TNW) is also high at 2.70 times as on March 31, 2018 (Provisional), though improved from 3.54 times as on March 31, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are comfortable at 3.04 times and 0.16 times respectively for FY2018 (Provisional). The group has reported cash accruals of about Rs.5.37 crore in FY2018 (Provisional); the group is expected to generate cash accruals of about Rs.4.70 - 6.40 crore over the medium term, against which its repayment obligations are about Rs.2.80 crore. The group has undertaken a moderate capex of about Rs.6.00 crore, proposed to be funded at a debt-to-equity of 2:1 for enhancement of capacity; and the same is expected to be available by March 2019. Despite the same, Acuité believes that the financial risk profile is expected to improve over the medium term supported by moderate accruals.

Weaknesses

- **Intense working capital operations**

The group has intense working capital operations as evident from Gross Current Assets (GCA) of 182 days as on March 31, 2018 (Provisional) as against 366 days as on March 31, 2017. The decrease in GCA days was mainly due to decline in inventory and debtor levels in FY2018 as compared to FY2017. The group's debtor days stood at 92 days as on March 31, 2018 (Provisional). Intense working capital management has led to high utilisation of bank lines at about 85 percent over the past six months ended July 2018. Acuité believes that the working capital operations of the group will remain intense as evident from moderate collection mechanism and inventory levels in the business.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the experience of the promoters in the auto ancillary industry. The outlook may be revised to 'Positive' in case the group registers significant growth in its revenues while maintaining its profitability and diversifying the revenue concentration. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management or any sharp decline in revenues leading to deterioration of its financial risk profile and liquidity.

About the Group

Incorporated in 2010 by Mr. K R S Narayanan, Uniflex Precision Products Private Limited (UPPL) is a Bangalore (Karnataka) based company engaged in manufacture of tube assembly which finds application in automobile industry. The company also undertakes fabrication works. The company has an installed capacity to produce 9.6 lakh tube assemblies at its facility located in Hosur (Tamil Nadu). UPPL reported revenues of Rs.14.08 crore and profit-after-tax (PAT) of Rs.0.66 crore in the financial year 2018 against Rs.6.71 crore and PAT of Rs.0.05 crore in FY2017.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.81	27.45	32.03
EBITDA	Rs. Cr.	8.88	7.14	5.27
PAT	Rs. Cr.	2.45	1.28	1.84
EBITDA Margin	(%)	17.82	26.01	16.47
PAT Margin	(%)	4.91	4.66	5.75
ROCE	(%)	14.70	14.81	28.40
Total Debt/Tangible Net Worth	Times	2.12	2.23	1.83
PBDIT/Interest	Times	3.04	2.78	3.77
Total Debt/PBDIT	Times	3.60	3.41	3.33
Gross Current Assets (Days)	Days	182	366	194

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*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 loans	Not Applicable	Not Applicable	Not Applicable	13.43	ACUITE BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.72	ACUITE A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.21	ACUITE A4+
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.64	ACUITE BB / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sethu Madhav Analyst - Rating Operations Tel: 040-40055452 sethu.madhav@acuiteratings.in	

About Acuité Ratings & Research:

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