

Press Release

Ujin Pharmachem

February 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 19.50 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 minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 19.50 crore bank facilities of Ujin Pharmachem (Ujin). The outlook is '**Stable**'.

Ujin, established in 2005 is a Mumbai-based partnership firm promoted by Mr. Umang Mehta and Mr. Jinesh Sheth. The firm is engaged in trading of chemicals, bulk drugs and pharmaceutical products. The firm procures products from manufacturers in and around Mumbai and sells the finished product to traders and manufacturers all over India. The firm also imports around 45 percent of its total purchases from Turkey, USA, Holland and other European countries.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoter**

Ujin has established operational track record of more than a decade which has helped maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoters who possess a decade's experience in trading of chemicals and pharmaceutical products.

- **Diversified customer profile and strong sourcing capabilities with long associated suppliers**

Ujin's vast customer base with diversified application of the product will act as partial offset of demand risk. With a decade of operations, the firm has strong association with many manufacturers across the products they trade.

Weaknesses

- **Average financial risk profile**

Ujin has average financial risk profile marked by net worth of Rs.13.98 crore as on 31 March, 2018 compared to Rs.10.47 crore as on 31 March, 2017. The gearing stood at 1.95 times as on 31 March, 2018 from 2.14 times as on 31 March, 2017. The total debt of Rs.27.20 crore comprises unsecured loans from directors/relatives of Rs.12.89 and working capital funds of Rs.14.32 crore as on 31 March, 2018. The interest coverage ratio stood at 1.55 times in FY2018 as against 1.43 times in FY2017. This is mainly due to improvement in profitability in FY2018. The net cash accruals stood at Rs.1.77 crore for FY2018 as against no repayment obligation. Going forward, Acuité expects the company to maintain its financial risk profile and improve its net worth in the absence of major debt funded capex plan.

- **Low profitability margins**

Ujin reported operating margin of 2.32 percent for FY2018 as against 2.75 percent in the previous year. Further, the net profit margins are thin at 0.88 percent for FY2018 as against 0.87 percent in the previous year mainly on account of high interest cost on bank borrowings and trading nature of operations.

• Working capital intensive nature of operations

The operations of the firm are working capital intensive evident by high Gross Current Asset (GCA) days of 163 for FY 2018 as against 149 for FY 2017. This is on account of stretched debtor position which stood at 98 days in FY 2018 as against 111 days in the previous year. Further, the other current assets also stood high which includes other loans and advances. The average cash credit utilisation stood at 95.11 percent for last six months ended November, 2018.

• Partnership constitution

The partnership constitution of the firm makes it vulnerable to the risk of capital withdrawal.

Liquidity Position

Ujin has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.64 to 1.77 crore during the last four years through 2015-18, while the firm has no debt obligations. The cash accruals of the firm are estimated to remain around Rs.1.98 – 2.41 crore during 2019-21. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 163 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the firm remains utilized at 95 percent during the last 6 months period ended December 2018. The firm maintains unencumbered cash and bank balances of Rs.0.34 crore as on March 31, 2018. The current ratio of the firm stand healthy at 1.40 times as on March 31, 2018. The firm is not likely to incur capex over the medium term. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of healthy cash accrual and no repayments over the medium term.

Outlook: Stable

Acuite believes that the Ujin maintain a 'Stable' outlook on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers strong growth in revenue and profitability margins and improves its financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in the revenue and profit margins or deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	199.47	137.48	146.88
EBITDA	Rs. Cr.	4.62	3.78	3.41
PAT	Rs. Cr.	1.75	1.20	0.71
EBITDA Margin	(%)	2.32	2.75	2.32
PAT Margin	(%)	0.88	0.87	0.48
ROCE	(%)	13.41	14.38	14.39
Total Debt/Tangible Net Worth	Times	1.95	2.14	3.69
PBDIT/Interest	Times	1.55	1.43	1.27
Total Debt/PBDIT	Times	5.45	5.52	5.34
Gross Current Assets (Days)	Days	163	149	159

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

CRISIL, vide its press release dated October 29, 2018 had denoted the rating of Ujin Pharmachem as 'CRISIL BB-/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB-/Stable/CRISIL A4+' vide its press release dated July 19, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.50	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4

Contacts

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About Acuité Ratings & Research:

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