Press Release

Uttam Cylinders Private Limited

January 27, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A2 | Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE BBB' (read as ACUITE t riple B)** and the short-term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.100.00 crore of bank facilities of Uttam Cylinders Private Limited (UCPL). The outlook is **'Stable'**.
The rating takes into account established track record of operations, significant increase in total operating income during FY19-21 with healthy profitability level and margin resulting in comfortable financial risk profile of the entity and comfortable working capital cycle. However, the above strengths are underpinned by project funding and execution risk undertaken for its wholly-owned subsidiary; Uttam Composites LLC and higher working capital utilization.

About the Company

Uttam Cylinders Private Limited (UCPL) was incorporated in November 2008 by Mr. Karan Bhatia and Ms. Aanchal Bhatia. The company is one of the flagship entity of Uttam Group. UCPL is engaged in manufacturing of aluminum alloy cylinders, composite cylinder and Bulk Gas Transport System for Compressed Natural Gas (CNG) and Hydrogen. In addition to this, the company is also involved in trading of high pressure gas cylinder, made of aluminum and carbon composite. The company also has mobile refueling unit for CNG. The aluminum cylinder is utilized in medical and industrial field whereas the carbon composite is utilized in clean energy and aerospace field. The manufacturing facility for BGT system is located at Faridabad (Sector-6- Haryana) with installed capacity of 350 systems per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations with experienced management

Uttam Cylinders Private Limited was incorporated in 2008 and thus has more than decade of existence in the industry. The company is managed by Mr. Karan Bhatia and Ms. Aanchal Bhatia, who also have experience of handling business ventures outside India.
Acuite believes that long track record of the company and experience of management is

expected to benefit the company.

Significant improvement in total operating income during FY19-21, resulting in healthy profitability

The total operating income of the company has grown significantly during FY19-21. The company reported total operating income of Rs.126.03 crore in FY21 against Rs.54.98 crore in FY19 (Rs.86.30 crore in FY20), thereby registering CAGR of 51.40% during the period. The growth in total operating income is also attributed to transition from manufacturing of aluminum cylinder to carbon composite, which is a higher value product. The operating profit of the company remained in the range of Rs.8.22-Rs.18.27 crore in FY19-21 with marginal moderation in FY21. The operating profit margin on an average remained at 16.52% during FY19-21. The net profit of the company increased from Rs.7.13 crore in FY19 to Rs.11-12.0 crore in FY20-21. Acuite believes that total operating income is expected to increase going ahead, led by company venturing into manufacturing of hydrogen BGT systems.

Comfortable Financial Risk Profile

The capital structure, represented by debt-equity remained below unity for the last three accounts closing dates ending March 31, 2021. The company did not have any debt during FY19. This resulted in moderation in debt coverage indicators and leverage ratios. The interest coverage ratio on an average remained at 40 times during FY19-21 and stood at 12.02 times in FY21. The net cash accruals to total debt moderated to 0.51 times in FY21 from 204.09 times previous year due to increase in term debt. The total outstanding liability to tangible net worth moderated marginally to1.34 times in FY21 over 1.15 times in FY20. The debt –EBITDA remained at 1.34 times in FY21 vis-à-vis 0.03 times in FY20. The moderation in financial risk profile is mainly on an account of increase in total debt in the form of working capital term loans. However, the overall financial risk profile remained at comfortable level during the period.

However, there is expected increase in term loan in FY22 and FY23, in order to fund the capex in subsidiary company; Uttam Composites LLC. Hence, the same is expected to result in moderation in financial risk profile of the company.

Comfortable Working Capital Cycle

The Gross Current Asset days of the company improved to 193 days in FY21 as against 217 days in FY20 (356 in FY19). The GCA improved, despite increase in current asset in FY21 in the form of loans and advances, mainly due to increase in total operating income. The inventory days has also improved to 71 days in FY21 as against 105 days in FY20 (174 days in FY19). The company imports around 70% of purchases, wherein USPL provides estimates to its suppliers on annual basis and reviews the same on quarterly basis. Hence, the company maintains inventory at around 80-90 days. On debtor's front, the company extends credit period of around 60 days. As the major client pertains to PSUs, the company receives payment from 30-50 days of raising bills. The company receives credit period of around 60 days from its suppliers.

Weaknesses

Ongoing debt-funded capex risk

The company has undertaken capex in its wholly owned subsidiary; Uttam Composites LLC. The capex is being undertaken in two stage involving expansion of capacity and new production line of cylinders with a purpose of backward integration. Both the projects are expected to be completed by June 2022 and March 2023 respectively. The aggregate project cost is Rs.97.50 crore and funding of the same is to be done through debt and equity (to be infused by promoters) at the ratio of 2.99:1. The funding tie up of the project is yet to be achieved as on date. Further, the repayment of the loans is to be done by UCPL and the project cost is expected to be routed as Investment. Any delay in commencement of project or higher than envisaged debt plans resulting in funding and execution risk is important from credit perspective.

Higher working capital utilisation

The average utilization of working capital borrowings remained at 90% for past 12 months ending November 2021

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Improvement in revenue and profitability margins with successful execution of ongoing capex.
>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.
>Any delay in execution of projects.

Material covenants

None

Liquidity: Adequate

The liquidity profile of the company remained at adequate level with net cash accruals of Rs.12.14 crore against the debt repayment of Rs.1.49 crore during the year, thereby providing sufficient cushion. The net cash accruals of the company remained between Rs.7.0 crore – Rs.12.15 crore in FY19-21. The current ratio remained above unity during FY19-21. Further, the company has also maintained cash and bank balance of Rs.4.75 crore as on March 31, 2021. The company has also planned for capex for its subsidiary for which, the company is expected to avail term loan of Rs.33.75 crore in FY22 and Rs.39.37 crore in FY23. The company has projected moratorium of one year on respective term loans and the term loan also entails long tenure of 10 years. Hence, albeit the term loan is being availed for its subsidiary, the repayment would be done by UCPL. However, Acuite believes that total operating income of the company is expected to increase going ahead, thereby generating sufficient cash accruals for the estimated debt repayment of Rs. 4.0 crore-7.0 crore during FY23-24.

Outlook: Stable

Acuité believes that the outlook on UCPL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability and successful execution of project. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company and delay in commencement of project.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	126.03	86.30
PAT	Rs. Cr.	11.57	11.96
PAT Margin	(%)	9.18	13.85
Total Debt/Tangible Net Worth	Times	0.62	0.02
PBDIT/Interest	Times	12.02	36.98

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

Not Applicable

Any other information

None

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History:
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 | Assigned
ICICI Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB | Stable | Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB | Stable | Assigned

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About Acuité Ratings & Research

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