

Press Release

Uttam Cylinders Private Limited

March 03, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple 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**'.

Rating Rationale

The ratings factors in the extensive experience of the management and the long track records of the company. Further, the growth in operations in past three years is also factored in. In FY 2022, Uttam Cylinders Private Limited took over Catalina Composite, which is a backward intergration the synergy achieved by the integration will result into better operating performances and hence the expected growth and profitability has been factored in. The rating is underpinned by dip in profitability on account of consolidation, leveraged capital structure and improved but high GCA days.

About 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 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 manufactures 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).

About the Group

Uttam Cylinders Private Limited (UCPL) and Uttam Composite LLC (100% subsidiary of UCPL) together referred as Uttam Group. Uttam Cylinders Private Limited is engaged in the trading of aluminum alloy cylinders, composite cylinders, and manufacture of Bulk Gas Transport System for Compressed Natural Gas (CNG) and Hydrogen. The company also has a mobile refueling unit for CNG. The aluminum cylinder is utilized in the medical and industrial fields whereas the carbon composite is utilized in the clean energy and aerospace field. Uttam Composite LLC in California, USA is engaged in the manufacturing of carbon composite cylinders. Approximately 60% of total production is purchased by the holding company i.e., Uttam Cylinders Private Limited for the manufacturing of the BGT Systems in their Faridabad

unit in India.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated business and financial risk profile of Uttam Cylinders Private Limited and Uttam Composite LLC to arrive at the rating. The consolidation is based on common management, related line of business (backward integration) & financial linkages.

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

The total operating income of the company grew significantly in FY 22 to Rs. 229.09 Crores as compared to Rs. 126.03 Crores in FY 21 thereby registering a growth during the period. In FY 22, the company had reported a one-time revenue with tie up with Delhi Government. In the 2nd Corona Wave, Uttam Cylinders Private Limited worked for Delhi Government to manage a consignment of 16000 cylinders (Steel Cylinders) that were to be air-lifted through chartered flights from China to Delhi-NCR. The cost of logistics was around Rs 22 crores that also helped company in achieving sharp growth however in FY23 the company is expecting to maintain the revenue from its normal business at the same level of FY22.

De-risk in supply side

The company has minimized the supply chain risk by reducing its reliance on one single supplier for composite cylinders. With the backward integration in Uttam Composite LLC, the synergy achieved by the integration will decrease the supply chain risk which will result in better operating performance of the company in the long term.

Future Growth Prospects

The company with its associations with brands like TATA Motors and Reliance Industries in the hydrogen fuelled vehicle segment will enhance the growth prospects for it. The company had a collaboration with TATA Motors for the R & D project for the Hydrogen Fuelling Cell Commercial Vehicle and it (TATA Motors) proposes to buy 200 such systems in 5 years. (MOU-Signed)- Mou Signed for 200 systems for next 2- 3 years out of which order of 5 system is executed, have received another order of 17 systems. The company did pilot projects for Hydrogen Bulk Gas Transport System with Reliance Industries where 2 units of BGT Systems were supplied in their Jamnagar unit in December. The global demand for hydrogen and carbon composite cylinders for its transportation is expected to increase in the medium term and hence the group's intent of finding technical investors for manufacturing of high-pressure capacity carbon composite cylinders will further fuel the group's growth prospect in the medium to long term.

Hence, looking at their current collaboration with big brands for Hydrogen projects and future prospects of Hydrogen to be used as a form of 'Clean Energy', the future growth prospects look positive in the long run.

Weaknesses

Decline in Margins

The company has experienced a decline in EBITDA margins from 13.43% in FY 21 to 4.13% in FY 22 and the Net profit margins have also declined to 1.56% in FY 2022 as against 9.18% in FY 2021 as the company has purchased a loss making unit in USA as backward-integration. These margins are expected to increase in the future years with the increase in operations in the California unit. Acuite have taken into consideration the fact that the decline is due to the first year of operations in Uttam Composite LLC which has posted losses in the year FY 2022.

Moderately Leveraged

The group's capital structure, represented by debt-equity stood at 3.43 times for FY 22, there has been increase in Long- Term borrowing availed by Uttam Composite LLC aggregating Rs. 16.35 Crores. The interest coverage ratio stood at 2.58 times in FY22. The net cash accruals to total debt declined to 0.06 times in FY22 from 0.51 times the previous year due to the increase in term debt. The total outstanding liability to tangible net worth increased to 6 times in FY22.

Rating Sensitivities

- Improvement in revenue and profitability margins of both the companies
- Finding strategic partner and execution of CAPEX for hydrogen cyclinder manufacturing in its subsidiary Uttam Composites LLC
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

Material Covenants

None

Liquidity Position

Adequate

The liquidity profile of the group remained at adequate level with net cash accruals of Rs. 4.34 crore against the debt repayment of Rs.1.49 crore during the year. The current ratio stood at 0.95 times during FY 22. Further, the company has also maintained cash and bank balance of Rs.6.09 crore as on March 31, 2022. The average bank limit utilization of the company remained at ~77.62% in past 12 months ended November 2022.

Outlook: Stable

Acuite 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 or profitability of the company and delay in commencement of project.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	229.09	126.03
PAT	Rs. Cr.	3.59	11.57
PAT Margin	(%)	1.56	9.18
Total Debt/Tangible Net Worth	Times	3.43	0.62
PBDIT/Interest	Times	2.58	12.02

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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
27 Jan 2022	Proposed Bank Facility	Long Term	70.00	ACUITE BBB Stable (Assigned)
	Bills Discounting	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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