Press Release

United Polyfab Gujarat Limited

July 3, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	100.75 (Reduced from Rs. 113.00 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Rating revised from IVR BB/ Negative Issuer Not Cooperating* and removed from 'Issuer Not Cooperating category'	Simple
Short Term Bank Facilities	4.50 (Reduced from Rs. 5.50 crore)	IVR A3 (IVR A three)	Rating revised from IVR A4 Issuer Not Cooperating* and removed from 'Issuer Not Cooperating category'	Simple
Total	**105.25 (INR One hundred and five crore and twenty five lakh only)**			

**Issuer not cooperating, based on best available information*

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics had moved the long-term rating of United Polyfab Gujarat Limited (UPGL) to Issuer Not Cooperating category vide it press release dated January 31, 2023, due to because of non-submission of no default statement. However, the company has started cooperating and submitted the NDS and required information. Consequently, Infomerics has removed the rating from 'ISSUER NOT COOPERATING' category and revised the ratings.

The revision in the ratings assigned to the bank facilities of UPGL considers an increase in topline and profit in FY23. Infomerics expects, going forward, the profits of the company to improve further on account of commencement of the wind mill for captive power consumption from H2 FY2024. Further, the ratings continue to derive comfort from long experience of promoters in the textile industry, moderate capital structure and adequate coverage indicators and easy availability of raw material. The ratings are, however, regional concentration of revenue, profitability remains susceptible to volatility in raw material prices and highly fragmented industry.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the capital structure and debt protection metrics

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- Deterioration in the capital structure with increase in overall gearing ratio and deterioration in debt protection metrics.
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Improvement witnessed in the topline during FY23, which is expected to improve further going forward**

The company topline and profit has increased since FY23. Total operating income was Rs. 652.60 crore in comparison to Rs. 209.89 crore in FY21, an increase of ~211%. Led by an increase in topline, the profits also witnessed an improvement. EBITDA was Rs. 28.61 crore in FY23 compared with Rs. 23.64 crore in FY21. PAT was Rs. 5.48 crore in FY23 compared with Rs.0.54 crore in FY21. The company is installing a wind mill with a capacity of 2.7 MW to support its captive consumption. Infomerics expects a cost saving of ~40% -50% of its existing power cost per annum, which consequently will aid the company's bottomline. The windmill is expected to get commenced in H2 FY2024 and profit is expected to increase from FY2024 onwards.

- **Long experience of promoters**

The promoters of the company have been in the textile business of nearly 30 years. Extensive business experience of the promoters with sound financial background supports the business risk profile of the company to a large extent.

- **Moderate capital structure and coverage indicators**

Total debt of the company declined to Rs. 106.15 crore as on March 31, 2023, from Rs. 113.17 crore as on March 31, 2022, due to decline in long term debt, bank borrowings and unsecured loan. The company's networth increased to Rs. 71.69 crore as on March 31, 2023 from Rs. 63.11 crore, due to share warrants of Rs.3.10 crore issued during FY23 and accretion of profit to equity. To arrive at the net worth, Infomerics has considered Rs. 8.00 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Considering the quasi equity of Rs. 8.00 crore, long term debt equity ratio stood at 1.05 times as on March 31, 2023, as compared to 1.19 times in as on March 31, 2022. The overall gearing ratio improved to 1.48 times as on March 31, 2023, as compared to 1.80 times in as on March 31, 2022. TOL /TNW was 1.76x on March 31, 2023, as compared to 2.33 times in as on March 31, 2022. Interest coverage ratio declined to 3.25 times in FY23 compared with 3.85 times in FY22. The decline in interest coverage ratio was due to higher interest charged in FY23 and decline in EBITDA in FY23. Debt service coverage ratio was 1.12 times in FY23 compared with 1.37 times in FY22. Long term debt/EBITDA improved to 2.62 times in FY23 compared with 2.31 times in FY22, due to a decline in long term debt. Going forward, Infomerics believes the financial risk profile to improve as the company is likely to post significant improvement in the topline and profits.

- **Easy availability of raw material**

The company has easy access to raw materials as its manufacturing plant is located in Ahmedabad (Gujarat), which is cotton growing belt of India. Favourable location of the plant also enables the company to save on logistics costs.

Key Rating Weaknesses

- **Regional concentration of revenue**

The company derives all its sales from the state of Gujarat, thus exposing the company to geographical concentration risk.

- **Profitability remains susceptible to volatility in raw material prices**

The company's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years and thus its profitability remains susceptible to any adverse movement in cotton and yarn prices. However, the risk is mitigated to an extent on account of order-backed raw material procurement policy.

- **Highly fragmented Industry**

The spinning industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the company's pricing flexibility and bargaining power.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the company is adequate marked by its expected gross cash accruals as against debt obligations from FY24 to FY26. Moreover, the company's bank limits are utilized to the extent of ~17% on an average for the twelve months period ended May 2023, giving sufficient liquidity cushion.

About the company

Incorporated in November 2010, United Polyfab Gujarat Limited is engaged in the spinning of cotton yarn. Its manufacturing unit is located in Timba, Dascroi, Ahmedabad. The company has an installed yarn spinning capacity of 40,000 spinning spindles. The company is listed on NSE.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Audited)
Total Operating Income	661.07	652.60
EBITDA	32.61	28.61
PAT	9.40	5.48
Total Debt	113.37	106.15
Tangible Net-worth	63.11	71.69
EBITDA Margin (%)	4.93	4.38
PAT Margin (%)	1.42	0.84
Overall Gearing Ratio (x) (adjusted)	1.80	1.48

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings continued to keep the rating of UPGL under the Issuer Non-Cooperating category on account of inadequate information for undertaking review and lack of management cooperation, as per the Press Release dated December 12, 2022.

Acuite Ratings continued to keep the rating of UPGL under the Issuer Non-Cooperating category on account of inadequate information for undertaking review and lack of management cooperation, as per the Press Release dated June 7, 2023.

Any other information: Nil

Rating History for last three years:

Sr. No.	**Name of Instrument/Facilities**	**Current Ratings (Year 2023-24)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23 (January 31, 2023)**	**Date(s) & Rating(s) assigned in 2021-22 (February 21, 2022)**	**Date(s) & Rating(s) assigned in 2020-21**
1.	Term Loan	Long term	57.91	IVR BBB-/ Stable	IVR BB/ Negative ISSUER NOT COOPERATING*	IVR BB+/ Stable	-
2.	GECL	Long term	21.84	IVR BBB-/ Stable	IVR BB/ Negative ISSUER NOT COOPERATING*	IVR BB+/ Stable	-
3.	Cash Credit	Long term	21.00	IVR BBB-/ Stable	IVR BB/ Negative ISSUER NOT COOPERATING*	IVR BB+/ Stable	-
3.	Bank Guarantee	Short Term	4.50	IVR A3	IVR A4 ISSUER NOT COOPERATING*	IVR A4+	-

**Issuer not cooperating, based on best available information*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan I	-	-	May 2027	9.71	IVR BBB-/ Stable
Term Loan 2	-	-	May 2028	17.78	IVR BBB-/ Stable
Term Loan 3	-	-	July 2027	2.21	IVR BBB-/ Stable
Term Loan 4	-	-	August 2028	5.17	IVR BBB-/ Stable
Term Loan 5	-	-	August 2023	8.67	IVR BBB-/ Stable
Term Loan 6	-	-	July 2027	8.03	IVR BBB-/ Stable
Term Loan 7	-	-	August 2028	6.34	IVR BBB-/ Stable
GECL 1			May 2026	8.49	IVR BBB-/ Stable
GECL 2			August 2028	5.00	IVR BBB-/ Stable
GECL 3			September 2026	2.36	IVR BBB-/ Stable
GECL 4			February 2026	3.44	IVR BBB-/ Stable
GECL 5			December 2027	2.55	IVR BBB-/ Stable
Cash Credit 1	-	-	-	7.00	IVR BBB-/ Stable
Cash Credit 2	-	-	-	6.00	IVR BBB-/ Stable
Cash Credit 3				8.00	IVR BBB-/ Stable

Bank Guarantee 1	-	-	-	3.00	IVR A3
Bank Guarantee 2	-	-	-	1.50	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-UPGL-jul23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.