



Press Release

Universal Petro Chemicals Limited **July 10, 2023**

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action	Complexity Indicator
Long Term- Fund Based Bank Facility- Cash credit	1.50	IVR BB+/ Negative (IVR Double B Plus with Negative Outlook)	Assigned	Simple
Short Term Non-Fund Based Bank Facilities -Letter of Credit	30.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Short Term Non-Fund Based Bank Facilities -Bank Guarantee	0.75	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Proposed-Short term Non-Fund based Bank Facilities-Letter of Credit	2.75	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	35.00	Rupees Thirty Five Crore Only		

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings assigned to the bank facilities of Universal Petro Chemicals Limited(UPCL) reflects in the experienced promoters and long track record of operation along with diversified product profile with reputed clientele base followed by comfortable capital structure and debt coverage indicators.

The rating however is restricted by the modest scale of operation with low profitability margin, working capital intensive nature of operation, volatility in raw material prices fluctuation, Susceptibility of profitability to foreign exchange fluctuation and absence of forward contract cover and competitive nature of industry.



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Key Rating Sensitivities:

Upward Factors:

- Improve its EBITDA margin above 8% on a sustained basis.
- Maintain capital structure below 1x

Downward Factors:

- Any decline in Total operating income achieved during FY23(Prov.)
- Any substantial increase in debt protection metrics marked by total debt to GCA and interest coverage falling below threshold limit.
- Any elongation in working cycle or deterioration in cash flow from operation which impacts liquidity indicator fall below unity.
- Volatility in forex incurring higher losses, impacting the overall profitability

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced Promoters and Long track record of operation

Universal Petro Chemicals Limited (UPCL) is managed through its Board of Directors, having extensive experience in their respective fields.

Mr. Pradeep Kumar Halwasiya with his vast industry experience was instrumental in introducing German Technology in the lubricants in Indian markets. The company's operations are supported by a team of professionals.

Universal Petro Chemicals Limited (UPCL) was incorporated on May 19, 1971 in Kolkata, West Bengal and is the flagship company of the Universal-Halwasiya Group, started by Late Shri Madan Mohan Halwasiya and has operational track record for more than five decades.

Diversified product profile with reputed clientele base track record of operation

UPCL supplies motorcycle and passenger car oils, diesel engine oils, gear oils, transmission oils, automotive grease, wet brake oils, coolants and industrial – hydraulic fluids. UPCL sells its various products under registered trademarks obtained from the Government of India – Trademark Registry. Some of the prominent products and their trademarks are – Automotive Lubricants: Engine Oils, Gear oils and Industrial Oils: Hydraulic oils, Industrial Gear oils, General purpose Machine oils. The customer profile consists of reputed clients.



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Comfortable capital structure and debt coverage indicators

The company's financial risk profile marked by overall gearing stood comfortable as on March 31, 2022, with nil long-term debt as on balance sheet date. Further, debt coverage indicators marked by total debt to GCA remained comfortable due to nil total debt outstanding as on balance sheet date. The interest coverage ratio stood comfortable at 8.69x in FY22 as against 9.25x in FY21 due to moderate EBITDA in absolute terms.

Key Rating Weaknesses:

Modest scale of operation and low profitability margin

The company has modest scale of operation marked by total operating income of Rs.83.24 crore in FY22 witnessed Y-O-Y growth at CAGR of 34.39% due increase in sales realisation backed by increase in order received from domestic sales.

Further, company had Tangible networth base stood moderate at Rs.32.48 crore as on March 31, 2022, moderated 30.94 crore as on March 31, 2021, moderated due to accretion of profit.

The company's profitability margin marked by EBITDA margin stood at 3.77% in FY20 and increased to 7.17% in FY21 due to moderated operating profit level owing to favourable market during the year. In FY22 the EBITDA margin weaken to 5.09% in FY22 due to increase in raw material consumption. The PAT margin fluctuated in the range of 1.93%-5.30% during the review period due to variation in interest expenses and depreciation cost.

Susceptibility of profitability to volatility in raw material prices

The basic raw material required by UPCL is base oil, the price of which is volatile in nature. Hence, the profitability of UPCL is exposed to variations in raw material prices. However, the same is mitigated to an extent as UPCL has long term relations with almost all the major base oil producing refineries in the world and has strategic tie-up in the form of long-term contracts with them for regular supplies of various grades of base oil.

Susceptibility of profitability to foreign exchange fluctuation



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The Company is exposed to currency risk as its clients are spread across all over the world, which might have favourable or adverse effect on the Company. UPCL's forex loss stood at Rs.1.41 crore in FY23(Prov.) as against its EBT of Rs.0.03 crore in FY23(Prov.). The Company informs of maintaining a natural hedge against its imports and exports, although managing the risk by having adequate forward cover shall enable reduce such risk and its impact on profitability.

Working capital intensive nature of operation

Being in commodity segment with work associated towards manufacturing of petroleum products the company operates in working capital intensive nature of operation. The company stock its raw materials for 2 months for quick processing of finished goods. On collection company receives payment with 2 months and payment to creditors are made in 3 months. Further, the average utilisation of working capital borrowing stood ~5% for the month ended January 2023.

Competitive nature of Industry

The company operates in manufacturing sector, which is marked by the presence of several mid to big size players in the organised as well as unorganised sector. Also, due to the manufacturing nature of its operations, the entry barriers remain low, resulting in high competition and consequently limited pricing flexibility which limits the pricing power of company.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria for rating outlook](#)

Liquidity-Adequate



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The liquidity position of the company stood stretched marked by current ratio at 2.73x as on March 31, 2022, as against 1.71x as on March 31, 2021, and quick ratio being 1.70x as on March 31, 2022, viz-a-viz 1.09x as on March 31, 2021, on account of moderate cash accrual as against nil term debt repayment. The company had security deposit by means of Fixed Deposit of Rs.8.45 crore as on March 31, 2022. The cash and cash equivalents stood at Rs.0.55 crore in FY22 as against Rs.0.12 crore in FY21. Further, company's fund based utilisation remained 4% for the month end March 23' as working capital is mitigated through internal accruals and the non-fund based -Letter of credit (LC) utilisation remained ~69% for the 12 months period as on March 23' and the creditors are paid back within time line of LC term which is 180 days.

About the Company:

Universal Petro Chemicals Limited ("UPCL") was incorporated on May 19, 1971, in Kolkata, West Bengal and is the flagship company of the Universal-Halwasiya Group, started by Late Shri Madan Mohan Halwasiya. UPCL's activity is manufacturing of Lubricants and other Speciality products through the refining process of Base Oil of various grades. The company is promoted by Mr. Pradeep Kumar Halwasiya along with three brothers. However, the day-to-day operation is managed by Mr. Pradeep Kumar Halwasiya.

Financials: Standalone

For the year ended / INR. Crore*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	53.94	83.24
EBITDA	3.40	4.44
PAT	2.91	2.69
Total Debt	0.71	0.00
Tangible Net Worth	30.94	32.48
Ratios		
EBITDA Margin (%)	7.17	5.09
PAT Margin (%)	5.30	3.22
Overall Gearing Ratio (x)	0.02	0.00

*Classification as per Infomerics' standards

The ratings also note the company's key financial performance for the year ended March 31, 2023. The Total operating income was Rs.102.84 crore with EBITDA at Rs.0.99 crore and PAT at Rs.0.03 Crore indicating substantial decline in profitability margins, which shall be



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monitorable. The Tangible Net worth remains comfortable Rs.32.51 crore with nil debt as of March 31, 2023.

Status of non-cooperation with previous CRA: The company was classified under Issuer Not Co-operating category on account of non-submission of relevant information, by BWR in the PR dated 05 Jul 2023.

Any other information: NA

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 (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term-Fund Based Bank Facility-Cash credit	Long Term	1.50	IVR BB+/ Negative	-	-	-
2.	Short Term Non-Fund Based Bank Facilities - Letter of Credit	Short Term	30.00	IVR A4+	-	-	-
3	Short Term Non-Fund Based Bank Facilities - Bank Guarantee	Short Term	0.75	IVR A4+	-	-	-
4.	Proposed-Short term Non-Fund based Bank Facilities	Short Term	2.75	IVR A4+	-	-	-

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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:



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	Revolving	1.50	IVR BB+/ Negative
Letter of Credit	-	-	-	30.00	IVR A4+
Bank Guarantee	-	-	-	0.75	IVR A4+
Proposed-Letter of Credit	-	-	-	2.75	IVR A4+

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-universal-petro-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