October 23, 2023

Unique Forgings (India) Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	12.25	20.00	[ICRA]BBB(Stable); reaffirmed/ assigned for enhanced amount
Fund-based – Term Loan	-	5.51	[ICRA]BBB(Stable); assigned
Non-fund Based – Bank Guarantee	2.00	3.00	[ICRA]A3+; reaffirmed/assigned for enhanced amount
Unallocated Limits	-	1.49	[ICRA]BBB(Stable)/[ICRA]A3+; assigned
Total	**14.25**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Unique Forgings (India) Private Limited (UFPL) continues to take into account the healthy financial profile of the company characterised by comfortable capital structure and debt coverage metrics coupled with steady improvements in its scale of operations over the past few fiscals, supported by capacity additions. The rating also factors in the vast experience of the promoters in the forging industry, its extensive track record of operations along with its track record of repeat orders from reputed customers.

The ratings, however, remained constrained by the absolute moderate scale of operations, vulnerability of UFPL's profit margins to fluctuations in raw material prices and associated overheads, customer concentration and sectoral concentration risks as the company generates a major share of its revenue from the automobile sector, which is cyclical in nature. The company is also planning a debt-funded capital expenditure (capex) in the range of Rs. 20-24 crore for a solar power plant to reduce its energy costs. Although the capex will help the cost structure, going forward, timely execution and its ability to generate commensurate results will remain critical. The ratings also take into account the stiff competition the entity is exposed to, given its presence in the forging business, which has players from both organised as well as unorganised segments.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that UFPL will continue to benefit from the vast experience of its promoters and its extensive track record of operations in the forging industry.

Key rating drivers and their description

Credit strengths

Track record of promoters in the forging industry – The company has an extensive track record of operations of more than three decades in the forging industry. UFPL's operations are managed by its key promoters who have vast experience in this industry through their association with the company since its formation as a partnership firm in 1987.

Reputed customers with proven track record of repeat orders – The company has enjoyed established relationships with its customers who are large, reputed original equipment manufacturers (OEMs), and has also attracted repeat orders from them over the years. This signifies a healthy long-term association, UFPL's acceptable product quality and adequate revenue visibility, going forward.

Comfortable capital structure; coverage metrics to remain adequate despite planned, debt-funded capex – The company's capital structure remains comfortable marked by gearing of 0.55 time as on March 31, 2023. The coverage metrics remain comfortable with interest coverage of 4.28 times and TD/OPBDITA of 1.94 times. Further, the capital and capitalisation metrics may moderate to an extent in the near term, on account of debt-funded capex envisaged. The same, however, is expected to remain at acceptable levels.

Credit challenges

Moderate scale of operations and net worth base – The company's scale of operations at an absolute level remains moderate; although it has grown in the last two years with capacity addition, albeit on a smaller base. The revenue was Rs. 97.6 crore in FY2021, which improved over the past two fiscals with the commercialisation of Unit-III and a better end-user demand scenario, standing at Rs. 179.3 crore in FY2023. Further, the net worth base also remains moderate at Rs. 57.3 crore (as on March 31, 2023) owing to limited accruals over the years.

Susceptibility of profitability to raw material prices as well as exposure to stiff competition – The profitability of the company is exposed to the fluctuation in raw material prices and inflationary conditions related to other overhead costs. Although the operating profit margin improved to~9.0% in FY2023 over 8.30 % in FY2022, the inflationary conditions with high steel prices, oil and gas prices, and other associated costs may affect the margins adversely. The company's ability to pass on the rise in its input costs and protect against any sharp erosion in margins over the near to medium term remains critical from a credit perspective as the company operates in a highly fragmented industry, characterised by intense competition owing to low-entry barriers, which limits the margins and scale.

High customer concentration risk and working capital intensive nature of business – The company is exposed to customer concentration risk as the top five customers generated ~60-66% of its total revenue in FY2022 and FY2023. It is further exposed to the inherent cyclicality associated with the automotive industry, which typically drives ~60-65% of its total revenues.

Liquidity position: Adequate

The company's liquidity position is adequate as marked by low long-term bank debt obligations. The company enhanced its working capital limits to Rs. 20 crore from Rs. 12.25 crore from October 2022, which is expected to support the liquidity. The working capital utilisation remained moderate at an average utilisation of 69% in the last 12 months ending August 2023. The annual cash accruals are expected to adequately cover the company's debt repayments and any incremental requirement of working capital.

Rating sensitivities

Positive factors – ICRA could upgrade UFPL's ratings if there is a sustained improvement in its scale of operations backed by healthy capacity utilisation levels and profitability while maintaining its debt protection metrics and liquidity on an overall basis.

Negative factors – Negative pressure on UFPL's rating could arise if there is any substantial decline in scale of operations or material decline in profitability levels leading to deterioration in coverage metrics. Any large debt-funded capex or stretch in working capital cycle adversely impacting its liquidity profile and other key credit metrics can also exert downward pressure on the ratings. Specific credit metrics, which can lead to a negative rating trigger will be interest coverage below 3x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

UFPL was incorporated as a partnership firm in 1987 and later reconstituted as a private limited company in 2007. UFPL is promoted by the Sherasiya family and manufactures forged and machined components. The company's manufacturing facility at Anand (Gujarat) has a total installed forging capacity of around 21,000 MT per annum, which increased from 14,400 MTPA with the commencement of Unit-III from April 2021.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	146.7	179.5
PAT	4.6	7.4
OPBDIT/OI	8.3%	9.0%
PAT/OI	3.1%	4.1%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	2.4	1.9
Interest coverage (times)	3.8	4.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	CRISIL B /Stable (ISSUER NOT COOPERATING)/CRISIL A4 (ISSUER NOT COOPERATING)	August 16, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 23, 2023	Feb 23, 2023	Feb 08, 2022	Dec 01, 2020
1	**Fund based Cash Credit**	Long Term	20.00	-	**[ICRA]BBB(Stable)**	**[ICRA]BBB(Stable)**	**[ICRA]BBB(Stable)**	**[ICRA]BBB(Stable)**
2	**Fund based – Term Loan**	Long Term	5.51	3.53	**[ICRA]BBB(Stable)**	-	-	-
3	**Non-Fund Based Bank Guarantee**	Short Term	3.00	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**
4	**Unallocated**	Long Term/ Short term	1.49	-	**[ICRA]BBB(Stable)/ [ICRA]A3+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash Credit	Simple
Fund based – Term Loan	Simple
Non-fund Based – Bank Guarantee	Very Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	20.00	[ICRA]BBB(Stable)
NA	**Term Loan**	2021	NA	2029	5.51	[ICRA]BBB(Stable)
NA	**Bank Guarantee**	NA	NA	NA	3.00	[ICRA]A3+
NA	**Overdraft limit**	NA	NA	NA	1.49	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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