

## Ucal Polymer Industries Limited

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.00	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of UCAL Polymer Industries Limited (UPIL) continue to factor in the presence in the rubber segment and high precision specialty plastics segment characterized by healthy profitability margins and a comfortable capital structure.

The ratings are, however, constrained by moderation in scale of operation and profitability margin for last three years. The rating also considers the cyclical nature of the auto industry, product obsolescence risks and investment in its US-based subsidiary.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in product profile and diversification of customer base
- Increase in scale of operations above Rs.75 crores

#### Negative factors

- Any large debt funded capex resulting in moderation of capital structure.
- Further deterioration in the scale of operations

**Analytical approach:** Standalone

### Key strengths

#### Established track record and experienced parent

Ucal Polymer Industries Limited (UPIL) was established to reduce UCAL Fuel system's Limited (UCAL) - dependence on imported plastic and rubber components. Over the years, UCAL's reliance on imports has reduced with corresponding increase in sourcing from UPIL. Beginning FY11, UPIL has started supplying products to other tier-I suppliers and OEMs. For FY22, UPIL has generated around 91% of its revenue by supplying its product to the parent UCAL. UPIL has benefited by UCAL's strategy to transfer the business of rubber and plastic components from other vendors to UPIL.

### Comfortable capital structure and coverage indicators

In the absence of any large debt funded capex during the last 6 years, the capital structure of UPIL remains comfortable. While the company has no long term debt and the level of working capital borrowings is relatively small, the overall gearing stood comfortable at 0.11x as on March 31, 2022 (PY: 0.11x). The PBILDT/ Interest stood at 8.66x in FY22 (PY: 11.34x) while the Total Debt/GCA stood at 2.04x (PY:3.49x).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Key weaknesses****Moderation in scale of operation and PBILDT Margin for last three years**

The total operating income of UPIL has been stagnant for last three years due to changes in market dynamics post implementation of BS VI norms, followed by covid pandemic and lower than expected takeoff new products like E-Carb and E-ASV etc., Total operating income stood at Rs. 44.29 crores and Rs. 34.99 crores for FY22 and 9M FY23 respectively. PBILDT Margins moderated from 15.15% in Fy21 to 10.80% in Fy22 due to limited negotiation power with OEM and reduced capacity utilization.

**Investment in subsidiary company**

During FY11, UPIL has invested about Rs.14.05 crore in its subsidiary company in USA namely UPIL USA Inc which was incorporated to serve as a marketing arm of UPIL in the US with a view to focus on export market. The company was established with the intention of making it the marketing arm for the group, but the same did not materialise. The adjusted network (after adjusting investment in subsidiary) is at Rs. 37.48 Crs as on March 31, 2022 and the adjusted gearing is at 0.15x times as on March 31, 2022.

**Evolving technological changes-status of BS VI compliant products**

After Implementation of BS VI emission norm, UCAL fuel system (Major customer of UPIL) had developed new Products ( E- Carb / E-ASV) for 2-W to comply the emission norms. Since, UPIL mainly caters to rubber and plastic requirements, no major investment was required for modifications/changes in its machinery and only moulds needed to be changed. Hence, the transition to BS VI compliant products did not involve major investments. However these products didn't take off as expected. On group level, UCAL are testing new products and success of these initiatives would be key from credit perspective

**Liquidity: Adequate**

The company doesn't have any term debt obligations for FY22. The working Capital Cycle has reduced from 149 days in FY21 to 103 days in FY22 with improvement in collection and extended credit period from the suppliers. The banker indicated the average working capital utilization is around 70% ,thereby, providing liquidity cushion to the company. The Cash and Bank balance stood at Rs. 0.08 crore as on March 31, 2022 (PY: Rs. 0.25 crores)

**Applicable criteria**[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Short Term Instruments](#)[Auto Ancillary Companies](#)[Manufacturing Companies](#)

## About the company and industry

### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Ucal Polymer Industries Limited (UPIL) is a wholly-owned subsidiary of Ucal Fuel Systems Limited (UCAL) and part of the Ucal group. UPIL is a Tier II supplier engaged in the manufacturing of high precision specialty plastic components and rubber moulded parts which find application in auto components such as carburettors, fuel injection equipment, air suction valve, etc. UPIL's manufacturing facilities are located in Puducherry and Bawal (Haryana). During FY22, UPIL generated 91% of its income from selling to UCAL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY23 (UA)
Total operating income	38.38	44.29	34.99
PBILDT	5.82	4.78	NA
PAT	0.15	1.52	0.84
Overall gearing (times)	0.11	0.11	NA
Interest coverage (times)	11.34	8.66	NA

A: Audited; UA: Unaudited; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Available

**Any other information:** Not Available

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	2.00	CARE A3

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-22)	1)CARE BBB-; Stable (22-Mar-21) 2)CARE BBB-; Stable (03-Apr-20)	-
2	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3	-	1)CARE A3 (08-Feb-22)	1)CARE A3 (22-Mar-21) 2)CARE A3 (03-Apr-20)	-
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (22-Mar-21) 2)CARE A3 (03-Apr-20)	-

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Available****Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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