

Ucal Polymer Industries Limited

February 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	8.00 (Rs. Eight Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 small scale of operations, the company's dependence on the auto industry which is cyclical in nature, product obsolescence risks and investment in its US-based subsidiary.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

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

Detailed description of the key rating drivers

Key Rating 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 FY21, 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 5 years, the capital structure of UPIL remains comfortable. While the company has minimal term debt and the level of working capital borrowings is relatively small, resulting in overall gearing recording a drop in the past 3 years. The PBILDT/ Interest stood at 11.35x in FY21 (PY: 29.73x) while the Total Debt/GCA stood at 3.49x (PY:0.27x).

Key Rating Weaknesses

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. 36.03 Crs as on March 31, 2021 and the adjusted gearing is at 0.03x times as on March 31, 2021.

Small scale of operations with moderate PBILDT margins:

The company marked a steady growth in turnover from FY16 to FY19. FY20 recorded a 15% drop as a direct consequence of the auto industry slowdown in this period and the change in product profile with the new emission norms coming in the two-wheeler space. FY21 also saw the impact of COVID related disturbances especially in the first half of the year and consequently the company dropped in TOI by 23%. As a result, the scale of operations continues to be small. Going forward, the company expects to cater to other OEMs like TATA, TVS Motors through its parent. For 9MFY22 the company reported a TOI of Rs 34.85cr as against Rs.27.28 cr for 9MFY21.

The company has been operating at high PBILDT margin over the years. The PBILDT margin in FY21 dropped to 15.17% though it continues to remain healthy. The drop is on account of higher raw material costs as well as the fixed costs incurred during the lockdown when the manufacturing unit did not operate.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Evolving technological changes-status of BS VI compliant products

With the GOI's thrust on improving the emission standards, BS VI emission norms (skipping BS-V) have been applicable from April 2020 onwards. For BSVI, UCAL (major customer of UPIL) has developed new products (E carburettor/ E ASV) for the two-wheeler industry to comply with the BSVI emission norms. Since, UPIL mainly caters to rubber and plastic requirements, no major investment was required to comply to BSVI requirements. The company made moulds and carried minor modifications in its machinery. Apart from the BS VI products, the company has also launched a new product: Fuel Rail Assembly for supply to Tata Motors Ltd.

Liquidity: Adequate

The company's expected accruals for FY22 is estimated at Rs.1.56 cr, which shall be adequate to service the repayment obligation Rs. 1.12 crore for FY22. The working capital cycle have increased from 137 days to 149 days on account of increase in extended credit period to its parent UCAL Fuel Systems Ltd. However, the working capital utilization is around 60% for last 6 months providing cushion to liquidity profile.

Analytical approach: Standalone

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](#)

About the Company

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 Pudukcherry and Bawal (Haryana). During FY21, UPIL generated 91% of its income from selling to UCAL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9M FY22 (Prov)
Total operating income	49.95	38.39	34.85
PBILDT	11.89	5.82	NA
PAT	7.22	0.15	NA
Overall gearing (times)	0.05	0.11	NA
Interest coverage (times)	29.73	11.35	NA

A: Audited; P: Prov; NA: Not Available

Status of non-cooperation with previous CRA: Not Available

Any other information: Not available

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Mar-21) 2)CARE BBB-; Stable (03-Apr-20)	-	1)CARE BBB-; Stable (13-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)
2	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3	-	1)CARE A3 (22-Mar-21) 2)CARE A3 (03-Apr-20)	-	1)CARE A3 (13-Mar-19) 2)CARE A3 (06-Apr-18)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)Withdrawn (22-Mar-21) 2)CARE A3 (03-Apr-20)	-	1)CARE A3 (13-Mar-19) 2)CARE A3 (06-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

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

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Parvathavardhini Natarajan
Contact no.: +91-44-2850 1000
Email ID: P.Natarajan@careedge.in

Relationship Contact

Name: Pradeep Kumar V
Contact no.: +91-44-2850 1001
Email ID: pradeep.kumar@careedge.in

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