# UCAL Fuel Systems Limited

October 13, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. Crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 59.74 (Reduced from 83.50) | CARE BBB+; Stable (Triple B Plus; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 80.00 | CARE A3+ (A Three Plus) | Reaffirmed |
| **Total Bank Facilities** | **139.74 (Rs. One hundred thirty-nine crore and seventy-four lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

## Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of UCAL Fuel Systems Ltd (UCAL) continue to derive strength from the experienced promoters and their established track record in the auto components business, the company's strong presence in two-wheelers (2W) carburetor segment, established engineering capabilities with integrated manufacturing set up and long-standing relationship with major 2W and four-wheelers (4W) automotive original equipment manufacturers (OEMs) and comfortable capital structure.

The ratings continue to be constrained by the exposure of UCAL to its subsidiary UCAL Holdings INC (formerly known as Amtec Precision Products, INC), moderation in financial performance for the past two years ended Mar'21, cyclical nature of the auto industry and associated technological obsolescence risks inherent in the industry.

## Rating Sensitivities

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

- Consistent growth in the scale of operations over Rs.500 crore with the scaling of volumes in the e-carburettor business and lowering dependence on a single product
- Effective management of working capital

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

- *Decline in the operating margins on a consistent basis.*
- *Any further exposure to the subsidiary with adjusted overall gearing exceeding 1.5 x*

## Detailed description of the key rating drivers

### Key Rating Strengths

***Experienced Promoters***

Ucal Fuel Systems Ltd (UCAL) was established in 1985 by Carburettors Limited, pioneers in India in manufacturing Carburettors and mechanical fuel pumps. In 1987, UCAL entered into a joint venture with Mikuni Corporation of Japan, an internationally renowned company for Fuel Management System and products. In 2008, Carburettors Ltd, the Indian promoter of UCAL Fuel Systems Ltd, acquired equity stake held by co-promoter, Mikuni Corporation of Japan. However, UCAL has absorbed extensive technical knowhow provided by Mikuni Corporation. The day-to-day affairs of the company are managed by Mr K. Jayakar (Chairman, Managing Director), an MBA in Finance from Duke University, USA. UCAL has been in this business for more than three decades and has successfully built engineering and manufacturing capabilities over the years.

***Established engineering capabilities and integrated casting set up***

UCAL's engineering capability and the ability to manufacture auto components with consistent quality and reliability is well acknowledged by OEMs and component manufacturers alike, who have been giving repeat orders y-o-y. The company has been able to adapt to changes in technology as has been evidenced in the successful development and supply of E- carburettor for meeting BS-VI norms.

The company has established an integrated set up, whereby, the total die casting requirement of the company is developed in-house. In addition to this, the company also has in-house machining, assembly and testing units. The company has invested around Rs.27.6 crore in research and development in the last two years.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

***Strong presence in 2W carburettor segment***

The major products manufactured by UCAL are 2-W carburetor (E carburetor and Mechanical carburetor), Air Suction Valve (ASV), E-ASV etc for 2W segment. UCAL started off as a 4-W carburettor manufacturer supplying predominantly to Maruti. With stringent emission norms and legislative requirements, the 4-W OEMs shifted to multi point fuel injection system (MPFI) which replaced carburetor. Subsequently, the company started manufacturing parts for MPFI sets like throttle body assembly, delivery pipe assembly, oil pumps and fuel pumps etc.

UCAL enjoys a strong market presence in 2W carburettor segment. UCAL's major 2W clients are Bajaj Auto Ltd (Bajaj) and TVS Motor Company Limited(TVS). Two-wheelers contributed around 89%, while four-wheelers contributed around 11% of the total income in FY21 (refers to the period April 1 to March 31). The revenues from 2W Carburettors contributed around 64% of the total operating income during FY20 (PY: 63%).

It may be noted that, UCAL has developed electronic carburetor (E-carburettor) which aids in complying with the BS-VI norms and is a cost-effective solution. Currently UCAL is supplying E-carburettor to Bajaj. This apart UCAL also supplies Mechanical carburetor to the export requirements of TVS and Bajaj. It may be noted that UCAL is the sole supplier to some of the models it caters to making it an important source of supply to the OEM's.

This apart Company supplies spares directly to OEMs and dealers. Spares revenue stood at Rs.93.2 crore for FY21 as against Rs.66.9 crore for FY20.

**Comfortable capital structure**

The company's capital structure remains comfortable with an overall gearing of 0.69x as on March 31, 2021 (PY: 0.60x). The Debt equity ratio also remains comfortable at 0.37x as on March 31, 2021. During FY21, UCAL has availed long term loan in the form of Term Loan and Emergency Credit Line Guarantee Scheme (ECLGS) of Rs.61 crore to enhance the liquidity position.

**Key Rating Weaknesses**

**Exposure to group entities**

UCAL acquired US based UCAL Holdings INC (UHI; previously known as Amtec Precision Products, Inc) during June 2005. UHI, the wholly owned subsidiary of UCAL is into the business of manufacturing of precision machined components for supply to US auto and engine manufacturers including Cummins, Navistar, Thysenkrup and Ford Motor Company.

The company had a total equity investment of Rs.109.40 crore as on March 31, 2021. Earlier during FY20 the company recognized impairment of Rs.105.09 crore extended to UHI. It is to be noted that UCAL has not invested in UHI for the past four years and as indicated by the management, the company does not plan to invest further into the subsidiary going forward. Adjusted for investments in UPIL, overall gearing stood at 1.05x for FY21 (PY: 0.99x)

**Moderation in financial performance for the past two years ended Mar'21**

The company reported total operating income of Rs.496 crore (PY: Rs.512 crore) majorly due to decrease in supplies to the 2W segment and 4W segment due to change in Market dynamics after transition to BSVI emission norms and slowdown witnessed by auto OEMs due to Covid related lockdown especially in H1FY21. UCAL reported PBILDT margins of 11.55% for FY21 as against 14.36% for FY20. The moderation in margins is mainly due to lower absorption of Fixed cost on lower sales. Adjusted for trading income of Rs.73 crore (Electronic Control Unit;ECU required for E-Carburettor) for FY21, PBILDT margin stood at 12.77% for FY21.

**Evolving technological changes**

Auto industry is cyclical in nature and technological obsolescence risks inherent in the industry with the change in emission norms and expected switch to electric vehicles in the long term though at lower pace.

In view of higher contribution of 2-W segment to total business, ability of UCAL to improve its sales from 4-W and achievement of providing BS VI solution using E-carburettor to more OEMs is critical for future prospects of the company.

**Liquidity: Adequate**

The company's expected accruals for FY22 are adequate against its repayment obligations of Rs.33 crore for FY22. The company extends credit period of around 30-60 days to its customers and gets the credit period of around 60-90 days from its suppliers. The stock holding period of the company is 30-40 days. In the last few years there, company has seen an elongation in the creditor period which stood at around 116 days in FY21. The company has a cash credit limit of Rs.35 crore and the average of the maximum monthly utilization was 75% in the past 12 months ended August 2021. This apart UCAL has additional working capital limits of Rs.80 Crore.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's Methodology for manufacturing companies
Rating Methodology – Auto Ancillary Companies
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-financial Sector Entities

**About the Company**
UCAL was established in 1985 by Carburettors Limited, pioneers in India in the manufacturing of carburettors and mechanical fuel pumps. UCAL is majorly present into Carburetors, E- Carburetors, Air Suction Valves (ASV), catering for the 2-wheeler (2W) and 3 wheeler (3W). UCAL also manufactures oil pump, vacuum pump fuel injection parts including fuel filters, throttle body assembly and delivery pipe assembly for the 4-wheeler segment. UCAL is a Tier-I supplier to major OEMs
UCAL has two wholly-owned subsidiaries, namely, Amtec Precision Products Inc., USA (Amtec) and UCAL Polymer Industries Ltd (UPIL, rated 'CARE BBB-; Stable/CARE A3') and has manufacturing plants in Chennai, Pondicherry and Haryana. Amtec is engaged in manufacturing precision products for supplying to US auto and engine manufacturers. It was acquired by UCAL in 2005 to diversify its presence in global markets. UPIL is engaged in the manufacturing of high-precision plastic components and rubber-moulded parts and earns majority of its revenues from sales to UCAL. UCAL has installed capacity of around 1.8 lakh / month for E carb.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) |
|---|---|---|
| Total operating income | 512 | 496 |
| PBILDT | 74 | 57 |
| PAT | (86) | 35 |
| Overall gearing (times) | 0.60 | 0.69 |
| Interest coverage (times) | 3.36 | 2.43 |

*A: Audited*
**Status of non-cooperation with previous CRA:**
Not Applicable

**Any other information:**
Not Applicable

**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-Term Loan | | - | - | **December 2023** | 24.74 | CARE BBB+; Stable |
| Fund-based - LT-Cash Credit | | - | - | - | 35.00 | CARE BBB+; Stable |
| Fund-based - ST-Working Capital Limits | | - | - | - | 80.00 | 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-Term Loan | LT | 24.74 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (24-Nov-20) | 1)CARE BBB+; Stable (06-Jan-20) | 1)CARE BBB+; Stable (03-Jan-19)<br>2) CARE BBB; Stable (06-Apr-18) |
| 2 | Fund-based - LT-Cash Credit | LT | 35.00 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (24-Nov-20) | 1)CARE BBB+; Stable (06-Jan-20) | 1)CARE BBB+; Stable (03-Jan-19)<br>2)CARE BBB; Stable (06-Apr-18) |
| 3 | Fund-based - ST-Working Capital Limits | ST | 80.00 | CARE A3+ | - | 1)CARE A3+ (24-Nov-20) | 1)CARE A3+ (06-Jan-20) | 1)CARE A3+ (03-Jan-19)<br>2)CARE A3+ (06-Apr-18) |

**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 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based - ST-Working Capital Limits | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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