

Ucal Fuel Systems Limited

November 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	46.83 (Reduced from 59.74)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	80.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	126.83 (₹ One Hundred Twenty-Six Crore and Eighty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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) carburettor 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 last three years and, cyclical nature of the auto industry. Notwithstanding, the industry wide impact due to the covid and related disruptions in demand/production etc,. The moderation in performance is also due to the limited product profile of the company. With the implementation of the BS VI norms the company's sales of its main product mechanical carburettor had dropped and this to an extent has been bridged by the e-carburettors for the domestic market. However, with evolving technology and most OEMs moving to fuel injection systems as opposed to e-carburettor, the challenge for the company would be to adapt to evolving technology requirements. The company is also working towards developing other products for the 4W segment and the success of these initiatives would be a key from a credit perspective.

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 1.5x

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

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

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 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.27.01 crore in research and development in the last two years.

Though the company's forte in 2 W carburettor segment, the company is foraying into other segments like fuel injection equipment for snow bikes, modified oil pump for four-wheeler segment, intake throttle valves for commercial vehicles, wherein R&D and prototype development are in the process and is expected to be commercialised in FY 2024.

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 FY22 (refers to the period April 1 to March 31).

It may be noted that, UCAL has developed electronic carburetor (E-carburetor) which aids in complying with the BS-VI norms . Currently UCAL is supplying E-carburetor to Bajaj. This apart UCAL also supplies Mechanical carburetor to the export requirements of Bajaj Auto and TVS Motor. 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. The revenues from 2W Carburetors contributed around 69% of the total operating income during FY22 (PY: 64%).

This apart Company supplies spares directly to OEMs and dealers. Spares revenue stood at Rs.102 crore for FY22 as against Rs.93.2 crore for FY21.

Comfortable capital structure

The company's capital structure remains comfortable with an overall gearing of 0.62x as on March 31, 2022 (PY: 0.73x). The Debt equity ratio also remains comfortable at 0.31x as on March 31, 2022. Though the company may avail additional debt of about Rs. 30 crores for regular capex and to replace high cost borrowing the same is not likely to impact capital structure in the near term.

Key Rating Weaknesses:

Moderation in financial performance for the past three years ended Mar'22

The total operating income of UCAL 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 product like E-carburetor, E-ASV etc. The company reported total operating income of Rs. 543.94 crore in FY22 (PY: Rs.495.92 crore).

UCAL reported PBILDT margins of 8.47% for FY22 as against 11.30% for FY21. 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 FY22, PBILDT margin stood at 9.74% for FY22 (PY:12.70). For H1 FY 2023, the company had reported turnover of Rs. 325.97 crore and PBILDT of Rs. 34.76 crore driven by increase in domestic sales compared to sales in H1 FY22.

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, Thyssenkrup and Ford Motor Company.

The company had a total equity investment of Rs.109.40 crore as on March 31, 2022. 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 0.96x for FY22 (PY: 1.14x)

Evolving technological changes

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

However, with evolving technology and most OEMs moving to fuel injection systems as opposed to e-carburettor, the challenge for the company would be to adapt to evolving technology requirements. The company is also working towards developing other products for the 4W segment. and the success of these initiatives would be key from a credit perspective.

Liquidity: Adequate

The company's expected accruals for FY23 are adequate against its repayment obligation of Rs. 29.71 crore for FY23. The company has reduced credit period from 116 days in FY21 to 83 days in 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. The average working capital utilization is around 75% for the 10 months ended June 2022.

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](#)

[Manufacturing Companies](#)

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY23 (UA)
Total operating income	495.92	543.94	325.97
PBILDT	57.22	46.08	34.76
PAT	35.33	7.94	11.27
Overall gearing (times)	0.73	0.62	NA
Interest coverage (times)	2.37	2.39	3.73

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of the rated instruments/facilities: 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 (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		-	-	-	35.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	Dec 2023	11.83	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	80.00	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-Term Loan	LT	11.83	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Oct-21)	1)CARE BBB+; Stable (24-Nov-20)	1)CARE BBB+; Stable (06-Jan-20)
2	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Oct-21)	1)CARE BBB+; Stable (24-Nov-20)	1)CARE BBB+; Stable (06-Jan-20)
3	Fund-based - ST-Working Capital Limits	ST	80.00	CARE A3+	-	1)CARE A3+ (13-Oct-21)	1)CARE A3+ (24-Nov-20)	1)CARE A3+ (06-Jan-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments/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

Annexure-5: Bank lender details for this company

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

Note on 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 for any clarifications.

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