

UCAL Limited

(Formerly known as UCAL Fuel Systems Limited)

September 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	23.39 (Enhanced from 11.83)	CARE BBB+; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	80.00	CARE A3+	Reaffirmed
Long Term Bank Facilities [^]	-	-	Withdrawn

[^] withdrawn based on the no due certificate from the bank; Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of UCAL Limited (UCAL) factors in long standing experience of the promoters and their established track record in the auto components business, established engineering capabilities, and long-standing relationship with major 2W and four-wheelers (4W) automotive original equipment manufacturers (OEMs).

However, the ratings are constrained by moderation in financial performance and capital structure, limited product profile, technological obsolescence risk of carburetors, with the major Indian OEMs' transitioning to fuel injection system over the e-carburetor. The ratings also continue to be constrained by the exposure of UCAL to its subsidiary UCAL Holdings INC (formerly known as Amtec Precision Products, INC).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in the scale of operations over Rs.500 crore with lowering dependence on carburetor segment.
- Effective management of working capital

Negative factors

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

Analytical approach: Standalone

Outlook: Negative

The revision of the outlook from 'stable' to 'negative' is on account of export market experiencing weakness and anticipated reduction in sales volume of E-carburetors, which is expected to impact the overall scale of operations and profitability of the company. The company, to counter the anticipated drop in demand is entering into the auto electrical and electronics segment. The Outlook will be revised to 'stable' if the company is able to ramp up the sales with successful commercialization of the new products being developed in these segments and fuel injection systems.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters

Ucal Fuel Systems Ltd (UCAL) was established in 1985 by Carburetors Limited, pioneers in India in manufacturing Carburetors 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, Carburetors 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

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. Though the company's forte lies in 2 W carburetor

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

segment, the company is foraying into other segments like Fuel Injection Equipment (FIE), modified oil pump, intake throttle valves, titanium pump, HD - fuel injector, wherein R&D and prototype development are in various stages of Product development. The products are planned for commercialisation in FY 2024 & 2025.

UCAL also forays into Automotive Electronics space to strategically position itself for meeting the demand of electronic products and solutions. R&D specific to a range of electronic products catering electric vehicles would be focussed upon in the forthcoming years. The company has invested around Rs.31.83 crore in research and development in the last two years ended FY23.

High dependence on 2W carburettor segment

UCAL enjoys a strong market presence in 2W carburettor segment. Sales from Two-wheelers contributed around 89%, while four-wheelers contributed around 11% of the total income in FY23 (refers to the period April 1 to March 31). UCAL's major 2W clients are Bajaj Auto Ltd (Bajaj) and TVS Motor Company Limited (TVS). UCAL supplies Mechanical carburetor to the export requirements of Bajaj Auto and TVS Motor. UCAL supplies E-Carburettor to Bajaj for domestic segment. On the Export front, there has been moderation in sales volume of 2-W due to the weakening of economic conditions. Uncertainty remains to continue in term of 2-W export volume offtake which may have an impact on the Mech Carb segment. It may be noted that UCAL is the sole supplier to some of the Bajaj models, making it an important source of supply to the OEM's.

However, Bajaj Auto Ltd, the sole procurer of E-Carburettor, is expected to move to fuel injection system (for less than 125cc) in phased manner before April 2025 resulting in significant reduction in offtake and revenue contribution from E-Carb in the current fiscal year FY24. Revenue from E-Carb is around 30% of Total operating income in FY23.

2W Carburettors continue to dominate the revenue contributions at around 66% of the total operating income during FY23 (PY: 68%). This apart Company supplies spares directly to OEMs and dealers. Spares revenue stood at Rs.138 crore for FY23 as against Rs.102 crore for FY22. The aftermarket segment would remain a focus area with a growth potential space in components and spares segment for bridging the anticipatory fall in volume offtake of E-carb segment.

Key weaknesses

Moderation in financial performance and Capital structure

PBILDT Margins have moderated in the last few years due to lower capacity utilization resulting in lower absorption of fixed cost. The company reported total operating income of Rs. 584.48 crore in FY23 (PY: Rs.543.94 crore). The PBILDT margin stood at 8.06% in FY23 as against 8.47% in FY22.

The Overall gearing stood at 0.53x as on March 31, 2023 as against 0.62x as on March 31, 2022. In FY24, the company has capex plans of about Rs. 45 crores, of which Rs. 30 crores will be funded through debt. As a result, capital structure is expected to moderate slightly but remain moderate for the medium term. The company also plans to replace a portion of high-cost debt to lower cost debt in FY24.

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, 2023. 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 five years and as indicated by the management, the company does not plan to invest further into the subsidiary going forward. Adjusted for investments in subsidiaries, overall gearing stood at 0.91x for FY22 (PY: 0.94x)

Evolving technological changes

Auto industry is cyclical in nature and technological obsolescence risks inherent in the industry with the change in emission norms. The company in the past was successful in adopting to new technologies like E- Carburetor after implementation of BS VI emission norms. The company is in a challenging environment to adopt to new technologies, with OEMs moving to fuel injection systems and electric Vehicles over the carburetor systems. Leveraging its engineering capabilities for adapting and adopting to new technologies with successful commercialization of new product lines is a key monitorable from a credit perspective.

Liquidity: Adequate

The company is expected to generate sufficient cash accruals to meet debt repayment obligation of about Rs. 30 crores in FY24. During FY23, the company has improved the collection period from 51 days in FY22 to 40 days in FY23. Company gets the credit period of around 60-90 days from its suppliers and holds inventory for the period of 30-40 days. In April 24, the company has closed its working capital limit to tune of Rs. 35 crores with SBI, however continues to avail the working capital limits of Rs.80 crores with Kotak Mahindra bank. The average utilization of bank credit lines is 80% for 10 months ended June 2023. The cash and bank balance stood at Rs. 0.37 crores as on March 31, 2023 as against Rs. 0.84 crores as on March 31, 2022.

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](#)
[Policy on Withdrawal of Ratings](#)

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 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) segments. 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, Ucal Holdings Inc., USA (UHI) (previously Amtec Precision Products Inc., (Amtec)) and UCAL Polymer Industries Ltd (UPIL, rated 'CARE BBB-; Stable/CARE A3') and has manufacturing plants in Chennai, Pondicherry and Haryana. UHI 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. In June 2023, the company changed its name from "UCAL Fuel systems Limited" to "UCAL Limited".

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1 FY24 (UA)
Total operating income	543.94	584.48	124.45
PBILDT	46.08	47.13	9.35
PAT	7.93	8.59	0.64
Overall gearing (times)	0.62	0.53	NA
Interest coverage (times)	2.39	2.60	2.10

A: Audited ; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

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: 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	April 2026	23.39	CARE BBB+; Negative
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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	23.39	CARE BBB+; Negative	-	1)CARE BBB+; Stable (15-Nov-22)	1)CARE BBB+; Stable (13-Oct-21)	1)CARE BBB+; Stable (24-Nov-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Stable (15-Nov-22)	1)CARE BBB+; Stable (13-Oct-21)	1)CARE BBB+; Stable (24-Nov-20)
3	Fund-based - ST-Working Capital Limits	ST	80.00	CARE A3+	-	1)CARE A3+ (15-Nov-22)	1)CARE A3+ (13-Oct-21)	1)CARE A3+ (24-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable
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	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Limits	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 for any clarifications.

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