

UCAL Fuel Systems Limited

January 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	117.20 (reduced from 143.15)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short term Bank Facilities	85.00 (enhanced from 55.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total	202.20 (Rupees Two hundred and two crore and twenty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of UCAL Fuel Systems Ltd (UCAL) takes into account continuous improvement in the operational and financial performance of the company for the past two years ended March 2018 and H1FY19 (refers to period from April 01 to September 30) supported by increase in sales volume during this period. The ratings continue to derive strength from the experienced promoters and their established track record in the auto components business, UCAL's strong presence in two-wheeler (2W) carburettor segment, established engineering capabilities with integrated manufacturing set up and long standing relationship with major 2W and 4W automotive original equipment manufacturers (OEMs).

The ratings continue to be constrained by exposure of UCAL to its subsidiary Amtec, growing competition and technological obsolescence risks inherent in the industry.

Emission norms in India is set to undergo major change under BS VI norms wherein the present carburettor offered by UCAL to 2W segment will not be adequate to meet the new emission norms. In order to provide alternate solution to meet the BS VI norms for 2W, UCAL has developed E-carburettor solutions. In the near term ability of UCAL to provide, new cost-effective fuel management system as an alternate to existing carburettor is key to maintain its established market position. At the same time, ability of UCAL to provide cost effective e-carburettor based solutions which meets BS VI norms for various 2W models of existing and new clients is likely to aid UCAL's business volumes significantly.

Going forward, ability of UCAL to improve volumes from BS VI compliant fuel management solutions for its 2W clients to offset drop in mechanical carburettor volumes, any major debt funded capex and any further increase in exposure to its subsidiary Amtec will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters:

Ucal Fuel Systems Limited (UCAL) was established in 1985 by Carburettors Limited, pioneers in India in the manufacturing of 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, has 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 is 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 two decades and has successfully built engineering and manufacturing capabilities over the years.

Wide range of product profile; Strong Presence in 2W carburettor segment:

UCAL enjoys a strong market presence in Two wheelers (2W) carburettor segment. UCAL supplies 2W carburettor and Air Suction Valve to clients like Bajaj Auto Ltd, TVS Motor Company Limited, Hero Motor Corp, Royal Enfield etc. The revenues from 2W Carburettors contributed around 60% of the total net sales during FY18 (PY: 63%) (refers to the period April 1 to March 31). UCAL started off as a four wheeler (4W) carburettor manufacturer supplying predominantly to Maruti. With stringent emission norms and legislative requirements, the 4W OEMs shifted to multi point fuel injection

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

system (MPFI) which replaced carburettor. Subsequently, the company started manufacturing parts for MPFI sets like throttle body assembly, delivery pipe assembly, oil pumps and fuel pumps.

Established Engineering capabilities and integrated casting set up:

UCAL's engineering capability and 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.

Continuous improvement in financial performance supported by improvement in volumes:

Past two financial years ended March 2018 witnessed improvement in overall sales volumes. The company reported total operating income of Rs.580.4 crore, moderate growth of ~2% Y-o-Y in FY18. The company reported PBDILDT margin of 17.45 % in FY18 (PY: 14.19%). The improvement in PBILDT margin was mainly due to cost reduction initiatives by management and process improvement. PBT before exceptional items stood at Rs.62.2 crore in FY18 as against Rs.37.7 crore in FY17. The company reported after tax loss of Rs.59.4 crore due to exceptional item of Rs.151.91 crore which is write-off of Loans and Advances and receivables due from its subsidiary-Amtec. For H1FY19, the company reported revenue of Rs.314 Crore as compared to Rs.284 Crore in H1FY18, growth of 10.6% Y-o-Y due to increase in supplies to Two wheelers OEMs. PBILDT margin stood at 17.6% for H1FY19 almost flat as compared to previous year mainly due to increase in raw material cost.

Comfortable capital structure:

In the last four years ending March 31, 2018, due to absence of any significant debt funded capex and relatively stable cash accruals overall gearing remained at comfortable levels. The overall gearing remained at 0.50x for the period ending March 31, 2018. The interest coverage ratio improved to 4.56x for FY18 (PY: 3.32x). Term debt/GCA improved to 0.86x (PY: 2.01x) while total debt/GCA improved to 2.45x (4.23x) as on March 31, 2018.

Key Rating Weaknesses

Significant exposure to subsidiary – Amtec, whose performance remains subdued:

UCAL acquired US based Amtec Precision Products, Inc (Amtec) during June 2005. Amtec, the wholly owned subsidiary of UCAL is into the business of manufacturing of precision machined components for supply to US auto and engine manufacturers. UCAL had written off loans and advances and receivables from Amtec amounting to Rs.151.9 crore in FY18. As on March 31, 2018, UCAL has equity investments of Rs.209 crore in its subsidiaries. UCAL had written off loans and advances and receivables amounting to Rs.151.9 crore in FY18. The exposure to Amtec by way of investments is 52% of UCAL's networth as on March 2018

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) will be applicable from April 2020 onwards. Two wheelers majorly use Carburettors for fuel injection and certain high end 2W models use Electronic Fuel Injection technology (EFI). Current Mechanical Carburettors cannot meet BSVI norms while EFIs would be able to meet. However, EFI is very expensive as compared to Carburettors. Being price sensitive product, UCAL has been developing alternate product i.e electronic carburettor (E-carburettor) which will aid in complying with the BS-VI norms and will be the cost effective solution. The product has been tested successfully with major OEMs and is expected to be used in two wheelers upto 125 cc. However, extend of acceptance/commercial success of the same by 2W OEMs is critical for future prospects of the company.

Liquidity:

The company extends credit period of around 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 30-35 days. The working capital cycle stood at 6 days as on March 31, 2018. The maximum working capital utilization for 12 months ended September 2018 was at around 86%. The current ratio remained low at 0.54x as on Mar 31, 2018 mainly due to write off loans and advances and receivables from Amtec amounting to Rs.151.9 crore in FY18.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Auto Ancillary Companies](#)

About the company

UCAL manufactures mainly carburettors and Air Suction Valves (ASV) for 2 Wheeler (2W) segment and oil pump, fuel injection parts including fuel filters, throttle body assembly and delivery pipe assembly for the 4 Wheeler (4W) segment. UCAL is a Tier-I supplier to leading auto OEMs like Bajaj Auto, Hero Motors, TVS Motors, Maruti Suzuki, Hyundai etc. 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	569.4	580.4
PBILDT	80.8	101.3
PAT	25.7	-59.4
Overall gearing (times)	0.42	0.50
Interest coverage (times)	3.32	4.56

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2023	82.20	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	85.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	82.20	CARE BBB+; Stable	1)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (25-Apr-17)	1)CARE BBB- (13-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	1)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (25-Apr-17)	1)CARE BBB- (13-Apr-16)	-
3.	Fund-based - ST-Working Capital Limits	ST	85.00	CARE A3+	1)CARE A3+ (06-Apr-18)	1)CARE A3 (25-Apr-17)	1)CARE A3 (13-Apr-16)	-

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