

UCAL Fuel Systems Limited

January 06, 2020

Ratings

Facilities	Amount(Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	90.63 (reduced from 117.20)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	85	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	175.63 (Rs. One Hundred Seventy Five crore and Sixty Three lakh only)		

Details of 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) carburettor segment, established engineering capabilities with integrated manufacturing set up and long-standing relationship with major two-wheelers (2W) and four-wheelers (4W) automotive original equipment manufacturers (OEMs).

The ratings continue to be constrained by the large exposure of UCAL to its subsidiary UCAL Holdings INC (formerly known as Amtec Precision Products, INC), cyclical nature of the auto industry which is in the midst of a drop in volumes in recent quarters and technological obsolescence risks inherent in the industry.

Emission norms in India are set to undergo major changes 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 an alternate solution to meet the BS VI norms for 2W, UCAL has developed an E-carburettor. Going forward, the ability of UCAL to provide, new cost-effective fuel management system as an alternative to existing carburettor to its clients is key to maintain its established market position.

Rating Sensitivities

Positive Factors

- Consistent growth in the scale of operations through successfully transitioning to the new BS VI environment.
- Ability of the company to generate returns from its investments in subsidiaries.

Negative Factors

- Decline in the operating margins below 17 % on a consistent basis.
- Any significant fall in the overall sales volume or loss of existing market position.
- Any further exposure to the subsidiary or deterioration in the performance of the subsidiary.

Detailed description of 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, 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 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 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 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 62% of the total operating income during FY19 (PY: 60%; refers to the period April 1 to March 31). UCAL started off as a 4W carburettor manufacturer supplying predominantly to Maruti. With stringent emission norms and legislative requirements, the 4W OEMs shifted to multi point fuel injection 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. The 2W segment contributed around 79% of the total sale while 4W segment contributed around 21% in FY19.

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.

Comfortable capital structure

The company's capital structure is comfortable with an overall gearing of 0.44x and 0.41x as on March 31, 2019 and September 30, 2019 respectively. The interest coverage ratio was 4.33x for FY18 (PY: 4.56x). Term debt/GCA improved to 1.06 years (PY: 0.86) while total debt/GCA was 2.5 years (2.45) as on March 31, 2019. The company has planned a capital expenditure of Rs.75 crore, towards addition of machineries for the e-carburettor segment in FY20 with the funding mix of Rs.50 crore term loan and Rs.25 crore from internal accruals.

Key Rating Weaknesses:***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 with carburettors. UCAL has developed cost-effective alternate to the EFI which is electronic carburettor (E-carburettor) that is BS-VI norms compliant. The product has been successfully tested and approved by one of the major OEM, while the other OEMs are in various stages of testing of the product. While the company shall be continuing to supply mechanical carburettors for the export models of the OEMs, however, the extent of commercial success and off take of the envisaged volumes of e – carburettor by the 2W OEMs is critical for future prospects of the company.

Exposure to subsidiary

UCAL acquired US-based UCAL Holdings INC (UHI; formerly 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. UCAL had written off loans and advances and receivables from UHI amounting to Rs.151.9 crore in FY18. As on March 31, 2019, UCAL has equity investments of Rs.209 crore in its subsidiaries. UHI has started reporting profits in the last few years, however reported a net loss of 0.5 million USD on a total operating income of 16.5 million USD in H1FY20. For FY19, it reported a PAT of 1.08 million USD on a total operating income of 41 million USD.

Adjusting for the above equity investments of Rs.209 crore, the overall gearing was 0.94x as on March 31, 2019.

Liquidity – Adequate

The company's accruals are sufficient against its repayment obligations of Rs.27.54 crore in FY20. 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 9 days in FY19. The company has a cash credit limit of Rs.35 crore and the average of the maximum monthly utilization was 93% in the past 12 months ended September 2019. The current ratio remained low at 0.52x as on March 31, 2019 mainly due to write off loans and advances and receivables from UHI amounting to Rs.151.9 crore in FY18.

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](#)

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

[Rating Methodology – Auto Ancillary Companies](#)

[Consolidation and Factoring linkages in Rating](#)

About the company

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	579.46	598.66
PBILDT	101.25	99.37
PAT	-59.36	38.78
Overall gearing (times)	0.50	0.44
Interest coverage (times)	4.56	4.33

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

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	55.63	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	55.63	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Jan-19) 2)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 (03-Jan-19) 2)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+ (03-Jan-19) 2)CARE A3+ (06-Apr-18)	1)CARE A3 (25-Apr-17)	1)CARE A3 (13-Apr-16)

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

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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