

UCAL Fuel Systems Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	143.15	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	55.00 (enhanced from 45.00)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total	198.15 (Rs. One hundred ninety eight crore and fifteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the short term bank facilities of UCAL Fuel Systems Ltd (UCAL) takes into account continuous improvement in operating cycle for the past three years ended March 31, 2017 and significant improvement in financial performance during 9MFY18 (refers to period from April 01 to March 31). Further 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 high level of 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, successful commercialization of cost effective e-carburettor solutions which meets BS VI norms is likely to aid UCAL's business volumes significantly.

Going forward, ability of the company to successfully commercialize BS VI compliant fuel management solutions for its 2W clients, 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 LTD (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 Fuel 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.

Established Engineering capabilities and integrated casting set up; however evolving technological changes: 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 sells casting products.

Wide range of product profile; Strong Presence in 2W carburettor segment: UCAL enjoys a strong market presence in 2W carburettor segment. UCAL supplies 2W carburetor and Air Suction Valve to clients like Bajaj Auto Ltd, TVS Motor Company Limited, Hero Motor Corp, Royal Enfield etc. The revenues from 2W Carburetors contributed around 63% of the

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

total net sales during FY17 (refers to the period April 1 to March 31). 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 carburettor. Subsequently, started manufacturing parts for MPFI sets like throttle body assembly, delivery pipe assembly, oil pumps and fuel pumps.

Improved financial performance during FY17 followed by improvement during 9MFY18: Despite demonetization and transition from BSIII to BSIV affecting two wheeler's demand in FY17, the total operating income of the company stood at Rs.566 Cr in FY17 (PY: Rs.506 Cr), growth of 12% YoY. The sales growth can be attributed to increase in the supplies of two wheeler's carburettor and air suction valve on increase in intake from existing customers like Bajaj Auto, Royal Enfield and Hero MotoCorp and also growth in Spare Sales. Further, spare sales of the company stood at Rs.63.2 Cr in FY17 (PY: 41.29 Cr) growth of around 51% manly due to increased off take of spares by OEMs and increase in focus given by company to increase aftermarket sales.

The company reported PBDILDT margin of 13.75 % (PY: 13.04%) and PAT of Rs.25 Cr (PY: Rs.18 Cr).

For 9MFY18, the company reported revenue of Rs.436 Cr almost flat as compared to 9MFY17. However, PBILDT margin stood at 18.43% in 9MFY18 as compared to 14.76% in 9MFY17 mainly due to cost reduction initiatives by management, increase in localization and increase in sales realization. The company reported PAT of Rs.31.5 Cr in 9MFY18 as compared to Rs.22.05 Cr in 9MFY17.

Comfortable capital structure: During FY17, UCAL has availed fresh term debt of Rs. 50 crore. However despite increase in term loan, long term debt equity ratio remains comfortable and stood at 0.27x as on March 31 2017(PY:0.25 x). Overall gearing remains comfortable at 0.58x as on March 31, 2017 (PY:0.54x). Total Debt/GCA stood at 4.37x as at the end of FY17 (PY: 4.52x).

Key Rating Weaknesses

Significant exposure to subsidiary – Amtec, whose performance remains subdued: As on March 31 2017, UCAL had investments of Rs.209 crore (PY: Rs.155) and total receivables including loans and advances of Rs.152.4 crore (PY: Rs.157.7 crore). The exposure to Amtec by way of investments and loans & advances and receivables was 105% of UCAL's networth as on March 2017 (96% as on March 31, 2016). 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 including Cummins, Navistar, Thyssenkrup and Ford Motor Company.

Amtec registered PAT of USD 0.4 million (PY: loss of USD 1.1 million) and cash profit of USD 1.8 million during FY17 (PY: USD 0.3 million).

Technology Risk-Change in emission norms: UCAL enjoys a strong market presence in 2W carburettor segment. With the GOI's thrust on improving the emission standards BS VI emission norms (skipping BS-V) will be applicable from April 2020 onwards in the domestic market. However the present carburettor offered by UCAL to 2W segment will not be adequate to meet the new emission norms.

Presently, Electronic Fuel Injection (EFI) technology is available in the market and being used in high end models which can meet BS VI norms. However, it is very expensive. As an alternative to EFI, UCAL has developed electronic carburettor (E-carburettor) which will aid in complying with the BS-VI norms and is expected to cost lesser than EFI. The product is in the testing stage with various clients and is expected to be used in 2W up to 125cc. This apart, the company is also in the process of developing fuel injection systems for the 2-W for more than 125 cc. Given the low cost of E-carburettor to comply with BS VI norms, same is expected to result in good demand for the company.

However, acceptance/success of the same by its customers is critical for future prospects of the company.

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 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 (JV) with Mikuni Corporation of Japan, an internationally renowned company for Fuel Management System and products. During April 2008, Mikuni has disinvested its stake in UCAL and the same was acquired by the Indian promoters, Carburettors Ltd.

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 Hero Motors, TVS Motors, Bajaj Auto, Yamaha, Maruti, 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	507	566
PBILDT	66	78
PAT	18	25
Overall gearing (times)	0.54	0.58
Interest coverage (times)	3.05	3.40

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

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-Cash Credit	-	-	-	76.50	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	66.65	CARE BBB; Stable
Fund-based - ST-Working Capital Limits	-	-	-	55.00	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	66.65	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Apr-17)	1)CARE BBB- (13-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	76.50	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Apr-17)	1)CARE BBB- (13-Apr-16)	-
3.	Fund-based - ST-Working Capital Limits	ST	55.00	CARE A3+	-	1)CARE A3 (25-Apr-17)	1)CARE A3 (13-Apr-16)	-

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