

UCAL Fuel Systems Limited

April 25, 2017

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|---|--|
| Long-term Bank Facilities | 170.49 (enhanced from 157.26) | CARE BBB; Stable (Triple B; Outlook: Stable) | Revised from CARE BBB- (Triple B Minus) |
| Short-term Bank Facilities | 45.00 (enhanced from 40.00) | CARE A3 (A Three) | Reaffirmed |
| Total | 215.49 (Rupees Two hundred and fifteen crore and forty nine lakhs only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long-term bank facilities of UCAL Fuel Systems Ltd (UCAL) take into account the continuous improvement in leverage levels in the past three years ended March 2016 and improved financial performance during 9MFY'17 (refers to the period April 01 to December 31). Furthermore, 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 the two-wheeler (2W) carburetor 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 take note of release of corporate guarantee given by UCAL in favour of one of its subsidiary Amtec Precision Products Inc (Amtec). The ratings continue to be constrained by high level of exposure of UCAL to its subsidiary Amtec which is loss making, growing competition and technological obsolescence risks inherent in the industry.

The ability of the company to capture increased share of business in the wake of intense competition in the industry, adapt to technology challenges successfully in a timely manner and bring about an overall improvement in the cash flow position of Amtec without increasing its exposure further would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

UCAL Fuel Systems (UCAL) was promoted jointly by Carburetors Ltd, Chennai and Mikuni Corporation of Japan. The company is part of the UCAL group founded by Mr S Gopalakrishnan. Apart from UCAL Fuel systems, other companies of the group include Carburetors Ltd (pioneer in manufacture of Carburetors in India), and UPIL. The day to day affairs of the company is managed by Mr K Jayakar (Chairman, Managing Director). 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. With the Government Of India's (GOI's) thrust on improving the emission standards the Bharat Stage IV norms for 2Ws have come into effect from April 2017. Under the BS –IV norms, no major modifications/changes are required with respect to UCAL's products. Additionally, BS VI emission norms will be applicable from April 2020 onwards. UCAL faces the risk of evolving technology as the company mainly deals in 2W Carburetors which has alternative advanced technology in the form of fuel injection systems, which is manufactured by few other players in this segment. However, for migrating to tighter emission norms under BS-VI, UCAL is in the process of developing samples of electronic carburetor. With the strong R&D team, UCAL has been able to develop new products.

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

UCAL supplies 2W carburetor to clients like Bajaj Auto Ltd, TVS Motor Company Limited, Hero Motor Corp, Royal Enfield etc. The revenues from 2W Carburetors contributed 60% of the total net sales during FY16. UCAL started off as a 4-W carburettor manufacturer supplying predominantly to Maruti. With stringent emission norms and legislative

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

requirements, the 4-W OEMs shifted to multi point fuel injection system (MPFI) which replaced carburetor. Subsequently, UCAL started manufacturing parts for MPFI sets like throttle body assembly, delivery pipe assembly, oil pumps and fuel pumps.

Stable financial performance during FY16 followed by improvement during 9MFY17

During FY16, the total operating income of the company marginally declined (by 5%) mainly due to decline in sales of Air Suction Valve (ASV) during the year. UCAL witnessed increased revenues from carburetors by 4% to Rs.303 crore during FY16. In the 4-W segment, the company witnessed increased sales to customers like Maruti and Hyundai.

During 9MFY17, the company registered increased sales of ASV during 9MFY17 (increase of 126%). This apart, growth in sales from the carburetor segment (growth of 31%) in 9MFY17 resulted in overall growth in total operating income of 19% during the period. The company has achieved GCA of Rs.39 crore (PY: Rs.31 crore) and PAT of Rs.22 crore (PY:Rs.14 crore) in 9MFY17. PBILDT margin of the company during FY16 has slightly moderated, however the same has improved during 9MFY17. The capital structure of the company improved with overall gearing at 0.54x (PY 0.64x) as on March 31, 2016.

Improved capital structure

The leverage levels of UCAL has seen continuous improvement in the past four years ended March 2016. Overall gearing improved from 0.92x as on March 31, 2012 to 0.54x as on March 31, 2016. The overall gearing marginally increased to 0.57x as on December 31, 2016 on account of additional debt availed for investment in Amtec. Term debt/GCA has improved during this period from 8.07 times as on March 31, 2012 to 4.52 times as on March 31, 2016.

Key Rating Weaknesses

Significant exposure to subsidiary – Amtec, whose performance remains subdued and release of corporate guarantee given by UCAL

UCAL acquired Amtec in FY06 which was primarily debt funded. Amtec was a loss making company and continued to make losses after acquisition. Amtec started making cash profits since October 2009. However, the profits were not sufficient to meet the debt obligations and the term loans were restructured for the third time during FY13. Amtec registered net loss of USD 1.13 million and cash profit of USD 0.3 million on total operating income of USD 34.1 million during FY16 and net loss of USD 0.08 million and cash profit of USD 1.1 million on total operating income of USD 25.8 million during 9MFY17. As on March 31 2016, UCAL had investments of Rs.155 crore, loans and advances of Rs.125 crore and outstanding receivables of Rs.33 crore from Amtec, translating to 96% of UCAL's networth. UCAL had given corporate guarantee to the term loans aggregating Rs.105 crore (outstanding as on March 31, 2016) availed by Amtec. During Q2FY17, Amtec replaced its existing debt (which carries corporate guarantee of UCAL) with refinance loan from a new lender and investment from UCAL. With this the corporate guarantee given by UCAL in favour of Amtec has been released.

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 Fuel Systems Limited (UCAL) was established in the year 1985 as a Joint Venture between Chennai based Carburetors Limited and Mikuni Corporation of Japan. During April 2008, Mikuni disinvested its stake to Carburetors Limited.

UCAL manufactures mainly carburetors 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 Equipments Inc., USA (Amtec) and UCAL Polymer Industries Ltd (UPIIL, rated 'CARE BBB-/CARE A3') and 11 plants (including R&D facility) 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. UPIIL 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 reported PAT of Rs.18 crore on a total operating income of Rs.506 crore in FY16 and PAT of Rs.22 crore on a total operating income of Rs.438 crore in 9MFY'17.

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-Term Loan | - | - | March 2021 | 93.99 | CARE BBB; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 76.50 | CARE BBB; Stable |
| Fund-based - ST-Working Capital Limits | - | - | - | 45.00 | 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Term Loan | LT | 93.99 | CARE BBB; Stable | - | 1)CARE BBB-(13-Apr-16) | - | 1)CARE BBB-(12-Feb-15) 2)CARE BBB-(16-Apr-14) |
| 2. | Fund-based - LT-Term Loan | - | - | - | - | - | - | 1)CARE BBB-(12-Feb-15) 2)CARE BBB-(16-Apr-14) |
| 3. | Fund-based - LT-Cash Credit | LT | 76.50 | CARE BBB; Stable | - | 1)CARE BBB-(13-Apr-16) | - | 1)CARE BBB-(12-Feb-15) 2)CARE BBB-(16-Apr-14) |
| 4. | Fund-based - ST-Working Capital Limits | ST | 45.00 | CARE A3 | - | 1)CARE A3 (13-Apr-16) | - | 1)CARE A3 (12-Feb-15) 2)CARE A3 (16-Apr-14) |

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