

UCAL Fuel Systems Limited

November 24, 2020

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Ratings	Rating Action
Long-term Bank Facilities	83.50 (Reduced from 90.63)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	80.00 (Reduced from 85.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	163.50 (Rs. One hundred sixty three crore and fifty lakh only)		

Details of instruments/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) carburetor segment, established engineering capabilities with integrated manufacturing set up and long-standing relationship with major 2W and four-wheelers (4W) automotive original equipment manufacturers (OEMs) and comfortable capital structure.

The ratings continue to be constrained by the exposure of UCAL to its subsidiary UCAL Holdings INC (formerly known as Amtec Precision Products, INC), cyclical nature of the auto industry and associated technological obsolescence risks inherent in the industry.

The ratings also take note of the company's successful transition to BS VI environment by launching the newly developed E-carburetor in the domestic market. E-carburetor has been accepted by its key OEM and the volume off-take has been consistently increasing on monthly basis in FY21.

Rating Sensitivities

Positive Factors

- Consistent growth in the scale of operations with the scaling of volumes in the e-carburetor business and lowering dependence on a single product
- Effective management of working capital with improvement in current ratio

Negative Factors

- Decline in the operating margins below 17% on a consistent basis.
- Any further exposure to the subsidiary

Detailed description of the key rating drivers

Key Rating 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, 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 three decades and has successfully built engineering and manufacturing capabilities over the years.

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 been able to adapt to changes in technology as has been evidenced in the development of the E- carburettor for meeting BS-VI norms. 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.

Strong presence in 2W carburettor segment

The major products manufactured by UCAL are 2-W carburetor, Air Suction Valve (ASV), oil pumps, vacuum pump, fuel pumps, fuel filter, Throttle Body Assembly (TBA), Delivery Pipe Assembly (DPA) etc. UCAL enjoys a strong market presence in 2W

carburettor segment. The revenues from 2W Carburettors contributed around 63% of the total operating income during FY20 (PY: 62%; refers to the period April 1 to March 31). The two-wheelers segment contributed around 80% while four-wheelers segment contributed around 15% of total income in FY20.

Successful launch of E-carburettor

With the GOI's thrust on improving the emission standards, BS VI emission norms (skipping BS-V) has been implemented since April 2020. Mechanical carburetors and Electronic Fuel Injection technology (EFI) are used for fuel injection in 2W. Mechanical carburetor which were pre-dominantly used in 2W fuel injection system turned out to be obsolete as it was not adequate to comply with BS – VI emission norms post April 2020. EFI is expensive as compared with carburetors though it is compliant to BS VI norms.

UCAL has developed cost-effective alternate to the EFI which is electronic carburetor (E-carburetor) that is BS-VI norms compliant. The product was successfully tested and approved by one of its key OEM, while the company is pursuing other OEMs.

The company has successfully launched this product and it has started supplying to its key OEM since January 2020. The company has sold around 1.9 lakh units of E- Carburetor in the month of October 2020 as against 0.19 lakh units in May 2020 with full capacity utilization.

Comfortable capital structure

The company's capital structure is comfortable with an overall gearing of 0.60x and 0.69x as on March 31, 2020 and September 30, 2020 respectively. The debt equity ratio is also very comfortable with minimal long-term debt. The company has not envisaged any major capital expenditure in the next few years and this is expected to help further reduce the leverage levels.

Key Rating Weaknesses

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 total equity investments of Rs.208.77 crore as on March 31, 2019 and it has recognized impairment of Rs.105.09 crore in FY20 and the remaining value of the equity investment stood at Rs.103.68 crore as on March 31, 2020. Earlier during FY18 the company had written off receivables and loans and advances of Rs.151.92 crore extended to UHI. Adjusting for the remaining equity investments of Rs.103.68 crore, the overall gearing was 0.96x as on March 31, 2020 (PY: 0.94x).

COVID – 19 impact and recent developments

UCAL resumed its operations from second week of May 2020 post the relaxation guidelines issued by governments on lock-down measures. Due to severe lock-down, whole auto industry has reported nil domestic sales during April 2020 and UCAL also reported nil sales in April 2020. The demand was lower in Q1FY21 due to severe lock-down across various states amidst COVID – 19 pandemic. The company reported total income of Rs.37.05 crore in Q1FY21 compared with Rs.143 crore reported in Q1FY20. In order to conserve cash, the company has rationalized its employee cost and it has availed relief moratorium permitted by RBI for the period March 2020 – August 2020 for its bank facilities. Automobile sales have consistently been increasing post Q1FY21 with OEMS reporting m-o-m increase in volumes. TVS and Bajaj Auto Limited have reported 19% and 11% growth in their monthly volumes in October 2020 compared to the volumes reported in the same month last year.

In line with the industry, UCAL's total operating income has increased in Q2FY21 and the company reported total operating income of Rs.146 crore in Q2FY21. The company reported total operating income of Rs.183 crore and PBDIT of Rs.23 crore for the 6-months period ended in FY21.

Industry & prospects

In FY20, the industry sales witnessed a sharp decline of 14.8% y-o-y vis-à-vis a growth of about 6.4% witnessed during FY19 led by factors such as increased insurance costs, uneven monsoon, high ownership costs, curtailed lending by the NBFC segment, weak festival demand, weak consumer sentiments and the spread of Covid-19 in the country. In case of Two & Three Wheelers, overall sales witnessed declined by about 14.2% y-o-y in FY20 led by decline in sales of two wheelers by about 14.4% followed by about 10.2% in three wheelers. The demand was under pressure on back of high ownership costs, higher outlay in insurance cost, increased fuel costs and price hike on back of new safety norms starting April 1, 2019 that led to slower movement in the segment sales.

In FY21, the automobile industry was affected due to nation-wide lock down and various state wide lockdowns imposed to contain the COVID – 19 virus outbreak. April 2020 recorded nil retail sales for the first time in history. In the successive month of May 2020, overall vehicle registrations declined sharply by 88.9% on Y-o-Y basis. The gradual easing of restrictions in lockdown in the country boosted retail sales for automobiles in June 2020 when compared with the previous month. In the month of June 2020, automobile registrations stood at 9.84 lakh vehicles, rise of 386% compared with May 2020 and decline

of 42% compared with June 2019. Domestic sales in October 2020 exhibited recovery across all segments. In the two-wheeler segment, cumulative domestic wholesales 7 companies show a healthy growth of 11% sequentially and the segment outperformed the same month of last year by 16.9%. In passenger vehicle segment, cumulative domestic wholesales data of 14 companies show a healthy growth in both sequential as well YoY basis of 22.8% and 17.3% respectively. Passenger vehicles and two wheelers are expected to continue their growth trajectory in coming months

Liquidity analysis: Adequate

The company's accruals are adequate against its repayment obligations. 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. However, with the stress in cash generation following the COVID outbreak, the company has extended creditors and the creditors stood at Rs.148.9 crore as on September 30, 2020, vis-à-vis Rs.145.3 crore as on March 31, 2020. The stock holding period of the company is 30-40 days. The company has a cash credit limit of Rs.35 crore, and the average of the maximum monthly utilization was 96.91% in the past 12 months ended October 2020. The current ratio has remained low at 0.41x as on March 31, 2020, on account of the exposure to the group companies and stretch of creditors.

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](#)

[CARE's Methodology for manufacturing companies](#)

[Rating Methodology – Auto Ancillary Companies](#)

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

[Liquidity Analysis of Non-financial Sector Entities](#)

About the Company

UCAL was established in 1985 by Carburetors Limited, pioneers in India in the manufacturing of carburetors 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, Carburetors Ltd.

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 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)	FY19 (A)	FY20 (A)*
Total operating income	598.66	517.34
PBILDT	99.37	77.69
PAT	38.79	-85.75
Overall gearing (times)	0.44	0.60
Interest coverage (times)	4.33	3.56

A: Audited; *based on abridged financial results published in exchange

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

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	-	-	December 2023	48.50	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	80.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	48.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Jan-20)	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (25-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Jan-20)	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (25-Apr-17)
3.	Fund-based - ST-Working Capital Limits	ST	80.00	CARE A3+	-	1)CARE A3+ (06-Jan-20)	1)CARE A3+ (03-Jan-19) 2)CARE A3+ (06-Apr-18)	1)CARE A3 (25-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

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

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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