January 08, 2024

Uniparts India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short term - Fund-based facilities	165.0	165.0	[ICRA]AA-(Stable)/[ICRA]A1+ reaffirmed;
Total	**165.0**	**165.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings for Uniparts India Limited (UIL/the company) factor in its steady operating performance, which is expected to sustain going forward. This is driven by the company's global service delivery model, strong engineering and product development capabilities for supplying three-point link (3PL) assemblies and precision machined parts (PMPs). The ratings also factor in UIL's established relationships and healthy business share with some of the leading original equipment manufacturers (OEMs) in the agricultural machinery and construction equipment industries. The company recorded a healthy revenue growth in FY2023 (11% YoY growth over FY2022) driven by strong demand from end customers. The company's revenue prospects, however, moderated in the current fiscal, led by subdued demand trends in the industries catered and destocking by the end customers. The entity recorded revenues of ~Rs. 590.4 crore in H1 FY2024 [a contraction of ~16% on Year-over-Year (YoY) basis]. Despite a moderation in operating profitability due to reduced operating leverage, the company continues to maintain healthy profitability (OPM of 21.2% and 19.1% in FY2023 and H1 FY2024, respectively). The company's revenues are expected to contract by 10-12% from FY2023 levels in FY2024 and will subsequently grow at a moderate pace over the medium term.

The company continues to maintain a strong financial risk profile, characterised by a conservative capital structure (TD/TNW of 0.1 times in FY2023 and H1 FY2024) and strong debt coverage indicators (TD/OPBDIT and interest coverage of 0.2 times and 48.5 times, respectively, in FY2023). Despite moderation in revenues in H1 FY2024, the company maintained strong debt coverage indicators in the absence of any major debt on its books. Apart from the company's healthy relationships with several OEMs, UIL is also present in the replacement market (aftermarket constituted ~16% of revenues in FY2023).

The ratings, continue to remain constrained by the inherent cyclical nature of UIL's end-user industries (agri-machinery and construction equipment). Additionally, even as the company caters to multiple customers, a significant amount of its revenue stems from a leading global agriculture and construction equipment manufacturer (~33% in H1 FY2024; although it is declining YoY), resulting in customer concentration risk. The risk is, however, mitigated to an extent by UIL's established relationship with the customer and supplies to it across various plants and geographies. Additionally, UIL's efforts to diversify its customer mix through new additions are likely to help reduce the concentration going forward. ICRA notes that UIL's working capital intensity remains high (~38% in FY2023 and 43% in H1 FY2024), a consequence of its global delivery service model, wherein it maintains adequate inventory at facilities and warehouses across locations to serve its customers in a timely fashion.

The Stable outlook on the long-term rating reflects ICRA's expectation that UIL will continue to benefit from its established relationship with leading OEMs in agriculture and construction equipment industries. This would help it record moderate earnings growth over the medium term and maintain a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established relationships and healthy business share with leading global agriculture and construction equipment manufacturers – UIL has a healthy presence in the agriculture and construction equipment sectors, serving as an established component manufacturer for leading global OEMs with two of its product platforms, 3PL for agricultural machinery and PMPs for agricultural and construction equipment. Over the years, the company maintained a strong business share for these products with the leading global OEMs, leveraging its strong engineering and development capabilities.

Diversified geographic presence through global footprint across key markets – UIL follows a global delivery service model with its manufacturing facilities and warehouses dispersed across geographies. This allows the company to provide multiple delivery options to its customers, wherein they can either opt for premium-priced local delivery (for products manufactured in a nearby plant or stored in a nearby warehouse) and benefit from lower lead time, or for competitively priced offshore delivery (from a relatively low-cost manufacturing location) that entails a higher lead time. Beyond the advantages of a global delivery service model, having customers across geographies also limits UIL's exposure to downturns in demand in any particular geography.

Strong financial risk profile characterised by low gearing and healthy coverage indicators – UIL's financial risk profile remains strong, characterised by a conservative capital structure and strong debt coverage indicators. The company has significantly brought down the debt levels over the past one year aided by healthy operating cash flows. The company has a negative net debt position, with cash and liquid investments of ~Rs. 118.5 crore as on September 30, 2023. Although the business is characterised by high working capital intensity along with substantial inventory holding, UIL's debt coverage indicators remained robust with an interest coverage of 48.5 times and total debt/OPBDITA of 0.2 times in FY2023. The continuation of healthy performance is likely to strengthen UIL's debt coverage indicators over the medium term.

Credit challenges

Customer concentration risk with high dependence on an agricultural and construction equipment major – UIL caters to a large number of customers, however, a significant share of its revenue is derived from a single agriculture and construction equipment manufacturer (~33% in H1 FY2024; albeit declining YoY). The high customer concentration risk exposes the company to vulnerability in demand from the OEM. Nonetheless, the risk is mitigated to an extent by its established relationship with the customer and its multiple touch points across the globe. Additionally, UIL's efforts to diversify its customer mix reduced its single-customer dependence to an extent (from 45% in FY2018). Going forward, an increase in supplies to its other customers is likely to help reduce this risk further.

Working capital intensive nature of operations mandated by global delivery model – UIL's working capital intensity remains high (~38% in FY2023 and 43% in H1 FY2024), resulting in fund requirements for its working capital. The same is a consequence of its global delivery service model, wherein it maintains adequate inventory at facilities and warehouses across locations to serve its customers in a timely manner. The company's inventory days remain high. For warehouse sales of products manufactured in India, the inventory holding period is about 5-6 months, which includes transportation and warehousing time until the products are picked up by customers.

Exposed to vulnerability in demand as end-user industries are inherently cyclical – The company derives its revenues from the agriculture and construction equipment industries, which are largely dependent on global/ macroeconomic growth. A bulk of UIL's revenues are derived from the export markets, with domestic supplies constituting ~13-16% of its revenues (primarily export requirements of domestic tractor OEMs). Accordingly, UIL's prospects remain linked to global demand conditions, especially in the North American market, which constituted ~50% of its revenues in FY2023.

ESG related comments

Environmental considerations – Even as UIL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its tractors and construction equipment manufacturing customers remain highly exposed to the same. Accordingly, UIL's prospects remain exposed to agro-climatic risks and its customers' ability to meet tightening emission requirements. The company has been taking steps to reduce its carbon footprint by enhancing its reliance on alternate energy sources. The company also manages effective water recycling. Its exposure to litigation/ penalties from issues related to waste and water management remains low.

Social considerations – UIL, like most automotive-component suppliers, has a healthy dependence on human capital. Retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations. UIL's annual reports indicate that it has been taking initiatives to support its vendors in upgrading their operations, skills, quality, and technology. Another social risk that UIL faces is that of product safety and quality, wherein instances of product recalls and high-warranty costs may not only lead to a financial implication but could also harm its reputation and create a more long-lasting adverse impact. In this regard, UIL's strong track record in catering to leading companies across the world underscores its ability to mitigate these risks. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Strong

UIL's liquidity position is strong, characterised by an expectation of healthy cash flows and availability of adequate unutilised lines of credit (buffer of ~Rs. 155-165 crore in working capital limits). The entity is expected to have more than sufficient liquidity to meet its limited debt repayments (~Rs. 2.6 crore in FY2024) in a timely manner. The company has a balance of Rs. 118.5 crore in cash and liquid investments as on September 30, 2023 and is expected to generate about Rs. 90-100 crore in retained cash flows per annum. Going forward, the company's dependence on external financing is expected to remain limited owing to its anticipated moderate capex plans.

Rating sensitivities

Positive factors – A sustained improvement in the business profile, driven by material diversification of the customer and end-user industry profile, would be favourably considered for an improvement in ratings. The company's ability to record a sustained improvement in its scale of operations while maintaining a healthy liquidity and credit profile could also lead to a rating upgrade.

Negative factors – The ratings may be revised downwards over the medium term if a weakness in demand in the underlying end-user segments adversely impacts the company's working capital intensity and profitability, leading to moderation in credit metrics. Specific credit metrics that could result in a rating downgrade include interest coverage lower than 7.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Auto component suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UIL. As on March 31, 2023, the company had 5 subsidiaries, one stepdown subsidiary (under indirect control) which are all enlisted in Annexure-2.

About the company

Incorporated in 1994, Uniparts India Limited is a global manufacturer and supplier of engineering systems and solutions, servicing global OEMs in the off-highway vehicle, agricultural machinery and construction equipment sectors. The company primarily manufactures three-point linkage assemblies for the agricultural machinery sector and precision machined parts for the agriculture and construction sectors. It also manufactures other products such as hydraulic cylinders (for agriculture and construction sectors), power take-off devices (for the agriculture sector) and fabrication parts (for agriculture and construction sectors). The company, along with its wholly owned subsidiaries, has six manufacturing units across India and one in USA, equipped with forging, machining, heat treatment and welding capabilities, among others. Additionally, the company has three warehouse facilities (two in USA, and one in Germany) for its overseas customers.

Earlier, its PE investors, Ashoka Investment Holdings Limited (15.9%) and Ambadevi Mauritius Holding Limited (4.8%), collectively held a ~20.7% stake in the company. Pursuant to the completion of its OFS for shares under its IPO, the investors sold their entire shareholding and exited the company.

Key financial indicators (audited)

UIL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	1,227.4	1,366.2	590.4
PAT	168.8	204.9	70.1
OPBDIT/OI	20.7%	21.2%	19.1%
PAT/OI	13.8%	15.0%	11.9%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	0.2
Total debt/OPBDIT (times)	0.6	0.2	0.3
Interest coverage (times)	44.5	48.5	51.3

*Source: Company, ICRA Research; *Limited results; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount o/s as of Sep 30, 2023 (Rs. crore)	Date & rating	FY2023	FY2022	FY2021	
					Jan 08, 2024	Jan 16, 2023	Jan 28, 2022	Nov 26, 2020	May 01, 2020
1	**Fund-based bank facilities**	Long term and short term	165.0	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
2	**Term loans**	Long term	-	-	-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Unallocated limits**	Long term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based - Working capital facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital facilities**	NA	NA	NA	165.0	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	UIL Ownership	Consolidation Approach
Uniparts India Limited	100.0% (rated entity)	Full Consolidation
Uniparts USA Limited	100.0%	Full Consolidation
Gripwel Fasteners Private Limited	100.0%	Full Consolidation
Uniparts India GmbH	100.0%	Full Consolidation
Gripwel Conag Private Limited	100.0%	Full Consolidation
Uniparts Olsen Inc.*	100.0%	Full Consolidation

*Source: UIL annual report FY2023; wholly owned subsidiary of Uniparts USA Limited**

Note: ICRA has considered consolidated financials of Uniparts India Limited and its subsidiaries while assigning the ratings.

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About ICRA Limited:

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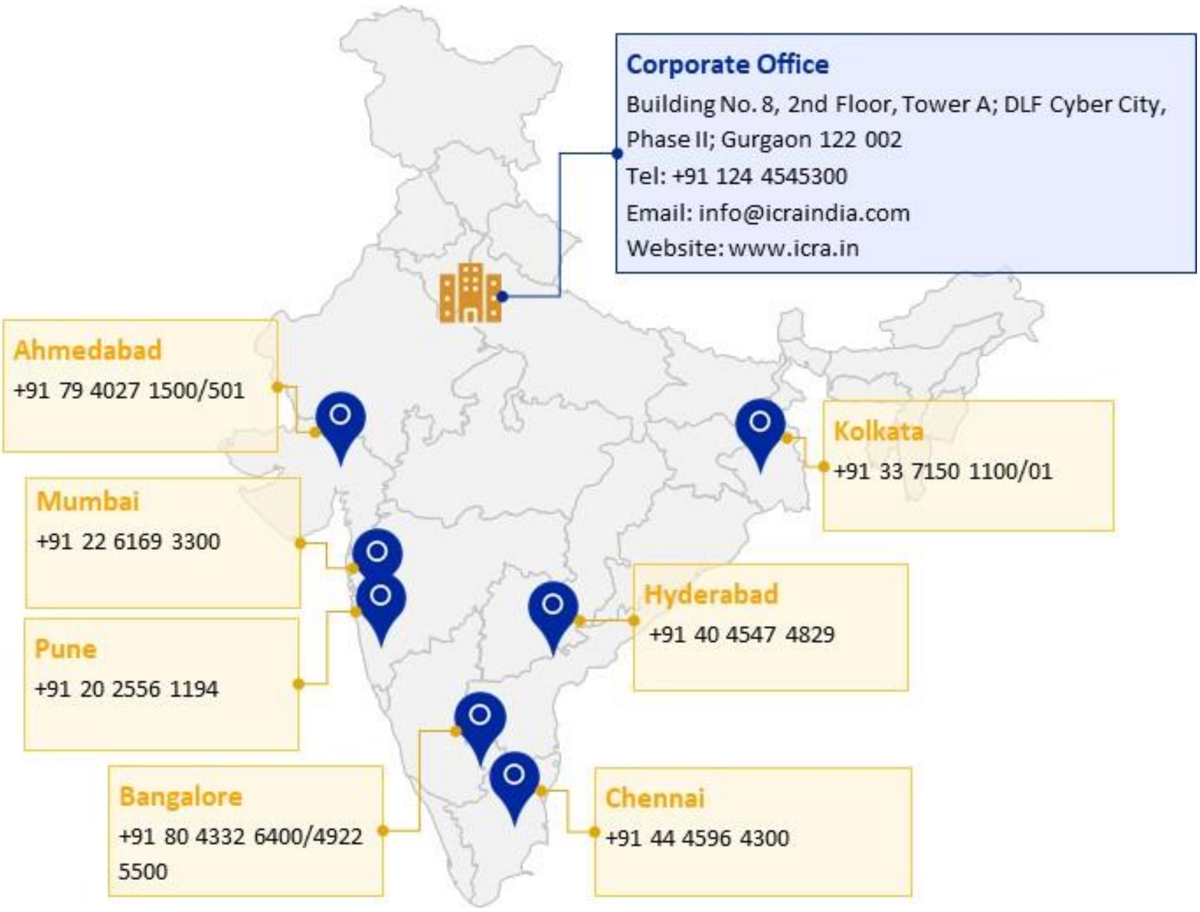

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