January 10, 2017

Uniparts India Limited

Instrument*	Rated Amount (in crore)	Rating Action
Working Capital Facilities	133.25	***[ICRA]A+ (stable)/[ICRA]A1 assigned***
Term Loans	26.65	[ICRA]A+ (stable) assigned
Unallocated	14.10	***[ICRA]A+ (stable) assigned***
Total	**174.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long term rating of [ICRA]A+ (pronounced ICRA A plus) and a short term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 174.0 Crore[1] bank facilities of Uniparts India Limited (UIL). The long-term rating has a "Stable" outlook[2].

Detailed Rationale

The ratings assigned take into account the established business position of UIL as a leading supplier of 3-point linkage assembly and precision machined parts to the global agriculture and construction equipment industry; the company has healthy business relationships and share of business with leading agricultural machinery and construction equipment manufacturers globally, with the company's manufacturing facilities and warehouses located across India, US and Europe aiding it in meeting the delivery requirements of its customers. UIL has an integrated operational profile, with facilities to undertake all the key manufacturing operations in-house, thereby aiding the company in keeping a stringent check on quality and timely delivery requirements and also limiting the company's dependence on external suppliers.

Although the company has business relationships with numerous OEMs, a significant proportion of the company's revenues over the years are from a global agricultural machinery and construction equipment OEM, resulting in high client concentration risk. The risk is, however, mitigated to an extent on account of the leading position of the OEM in the global agricultural equipment industry as well as the established business relationship of UIL with the OEM, with supplies being undertaken for various units across the globe. . The company is targeting increased contribution from new OEMs and geographies going forward with a view to reducing its client concentration risk and is already in advanced discussions with numerous OEMs in the construction equipment segment for new business.

UIL remains exposed to vulnerability in demand, with the industries catered remaining inherently cyclical in nature. The weak demand for these products over the past few years has curtailed the company's revenue growth and in turn resulted in suppressed return indicators; however the company has been able to maintain its scale of operations while continuing to focus on improving profitability. The business growth outlook for the company over the short term remains weak, with demand trends in the global agriculture and construction equipment industry continuing to remain weak. However, global OEMs have indicated positive demand prospects that are likely to support company's revenue growth over the medium term.

The ratings assigned also factor in favourable the healthy financial risk profile of the company, characterized by a conservative capital structure and strong debt coverage indicators. The liquidity profile of the company, however, remains moderate characterized by a long working capital cycle mandated by the global delivery model, resulting in moderate to high utilization of working capital limits. The company has capex plans towards enhancing its capacity at its Ludhiana unit in the current fiscal. While the company's healthy cash accruals are likely to be sufficient to fund a majority of the capex plans, any significant debt undertaken to fund any inorganic growth plans of the company could lead to moderation of the financial risk profile.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Going forward, along with UIL's ability to gain incremental business with a view of diversifying its customer profile and its ability to manage its working capital intensity, any significant cash outflows to facilitate the exit of the existing private equity partners, would remain a key rating sensitivity.

Key rating drivers

Credit Strengths

- Established business relationships and healthy share of business with leading agricultural machinery and construction equipment manufacturers globally
- Diversified revenue profile, with two established product platforms (3 Point Linkage assembly and precision machined parts) contributing equally to revenues
- Global service delivery model through facilities/warehouses located at multiple locations (India, US and Europe) aids in providing multiple delivery options to customers
- Integrated operational profile aids in ensuring timely delivery to customers while meeting quality requirements
- Healthy financial risk profile, characterized by conservative capital structure and strong debt coverage indicators

Credit Weakness

- High client concentration risk with a significant proportion of revenues coming from a global agricultural machinery and construction equipment OEM; mitigated to an extent by established relationship with the group and supplies to multiple locations/plants
- Exposed to vulnerability in demand, with industries catered (agricultural machinery and construction equipment) remaining inherently cyclical in nature; downturn in demand has constrained growth prospects over the past 4-5 years
- Return indicators have remained moderate, on account of high working capital intensive nature of operations mandated by global delivery model

Detailed description of key rating drivers highlighted above:

UIL, along with its wholly owned subsidiaries (collectively referred to as UIL group) has six manufacturing facilities located in India and USA. Additionally, the group also has three warehouse facilities to cater to overseas customers. UIL group has presence across various geographies, with supplies to the US market constituting a large proportion of the total revenues. In order to cater to its customers across various locations, UIL group follows a global delivery service model, wherein it provides delivery options to its customers who have the option of souring locally at premium pricing and benefit from lower lead time or opt for a competitively priced offshore delivery, which entails a higher lead time. The group primarily has presence in manufacturing two product lines – 3-point linkage assemblies for the agriculture sector and precision machined parts for the both the agriculture and construction sectors. Although at a standalone level, 3-point linkage assembly (3PL) remains the key product for the company, the contribution of both the products to the consolidated revenues (UIL group) has nearly remained equal over the past few years. UIL group has a healthy market presence in supplies for both the above mentioned products in various geographies worldwide.

Inspite of a healthy customer base, a significant proportion of the group's revenues over the years have been derived from supplies to a global agricultural machinery and construction equipment OEM (supplies across various plant and various geographies). Although a high dependence on the OEM results in high client concentration risk, the risk is mitigated to a large extent due to the healthy position of the OEM in the international agricultural machinery industry as well as the established business relationship of UIL group with the OEM, with supplies being undertaken for various units across the globe. The group's revenue growth prospects over the past few years have been impacted by the weak demand in the global agricultural machinery and construction equipment industries, which has led to a decline in business of a majority of the group's customers. Inspite of the contraction in volumes of the group's key customers, UIL group was able to maintain its topline, on the back of new businesses gained over the past few years. UIL's ROCE has remained at moderate levels over the past few years. With the company being in the process of expanding the capacity at its Ludhiana Plant, the ROCE of the company is expected to remain suppressed over the short term, till the scale of operations ramp up with an improvement in global demand. The company's financial risk profile remains healthy characterized by conservative capital structure and strong debt coverage indicators.

Analytical approach:

Links to applicable Criteria

- Corporate Credit Rating –A Note on Methodology
- Rating Methodology for Auto Component Suppliers

About the Company:

Uniparts India Limited (UIL) is a manufacturer and supplier of engineering systems and solutions, catering to global OEMs in off-highway vehicles, agricultural machinery and construction equipment sectors. The company primarily manufactures two products – 3-point linkage assemblies for the agricultural machinery sector and precision machined parts for both the agriculture and construction sectors. Additionally, it also manufactures products such as hydraulic cylinders (agriculture and construction) and power take off devices (agriculture). The company along with its wholly owned subsidiaries, has six manufacturing units (with five units located in India and one in USA), equipped with manufacturing processes such as forging, machining, heat treatment, welding etc. Additionally, the company also has three warehouse facilities (two in USA and one in Germany) to cater to its overseas customers.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (2016)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2013
				January 2017	-	-	-
1	Working Capital Facilities	Long Term/ Short Term	133.25	[ICRA]A+ (Stable)/[ICRA]A1	-	-	-
2	Term Loans	Long Term	26.65	[ICRA]A+ (Stable)	-	-	-
3	Unallocated	Long Term	14.10	[ICRA]A+ (Stable)	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Working Capital Facilities	-	-	-	133.25	[ICRA]A+ (Stable)/[ICRA]A1
Term Loan -1	2013	-	August 2019	20.00	[ICRA]A+ (Stable)
Term Loan -2	2015	-	November 2020	6.65	[ICRA]A+ (Stable)
Unallocated	-	-	-	14.10	[ICRA]A+ (Stable)

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About ICRA Limited:
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