Uniparts India Limited

April 30, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	133.25	162.50	[ICRA]A+ (Stable)/[ICRA] A1; reaffirmed
Term Loans	26.65	26.00	[ICRA]A+ (Stable); reaffirmed
Unallocated Limits	14.10	10.00	[ICRA]A+ (Stable); reaffirmed
Total	174	198.5	

Rating action

ICRA has reaffirmed a long-term rating of [ICRA] A+ (pronounced ICRA A plus) for the bank facilities of Uniparts India Limited (UIL). The outlook on the long-term rating is Stable. ICRA has also reaffirmed a short-term rating of [ICRA] A1 (pronounced ICRA A one) for the bank facilities of the company. The total rated amount has been enhanced from Rs. 174.0 crore to Rs. 198.50 crore.

Rationale

The reaffirmation of ratings, takes into account the healthy revenue growth and steady operating performance of UIL, benefitting from its established relations and healthy share of business for supplies of three-point link assemblies (3PL) and precision machined parts (PMP) to leading agriculture machinery and construction equipment manufacturers. UIL continues to remain exposed to inherent cyclicality of the industries that it caters. A muted demand in global agriculture and construction equipment markets till 2016 had flattened the company's revenue growth. A revival in demand for agricultural machinery and construction equipment over the past few quarters has led to a healthy revenue growth in FY2018. Continued improved demand outlook across geographies for agriculture machinery and construction equipment going forward, is likely to help UIL record a healthy growth in revenues over the medium term. The company's strong engineering and product development capability have aided it in maintaining a strong share of business with various customers; additionally, with facilities located across India and US which undertake all manufacturing operations in-house, and the company is able to offer multiple delivery options to its customers, while maintaining the desired quality parameters.

While the company caters to large number of OEMs, it continues to remain exposed to client concentration risk, with a significant percentage (declining steadily in the last few years) of its revenues being derived from a single agriculture machinery and construction equipment manufacturer; the risk is mitigated to an extent on account of long standing relationship with the OEM that also enjoys leadership position in agriculture equipment industry and the fact that UIL delivers product globally to this customer at more than 25 locations. UIL continues to focus on increasing business from various other agricultural machinery and construction equipment OEMs to further diversify customer base. While company's operating profitability (on a consolidated basis) in FY2017, remained moderate due to sub-optimal utilisation of the installed capacities, a ramp up in operations in FY2018, on account of healthy increase in scale of business has aided in improvement in profitability metrics in FY2018. While, the company's operations are characterised by high working capital intensity, owing to its need to maintain high inventory level required for integrated operations across the Uniparts Group's locations in India, US and Germany, UIL has maintained a relatively comfortable liquidity profile over the years, characterised by a healthy current ratio and asset liability surplus.

The ratings assigned also factor in favourably the healthy financial risk profile of the company, characterised by low gearing and healthy debt coverage indicators. Despite debt-funded moderate capex plan to enhance capacity, the company continues to maintain a healthy financial risk profile, with steady healthy cash accruals expected to limit its dependence on external borrowings. Any significant cash outflows for acquisitions and to facilitate the exit for private equity investors will moderate the financial risk profile of the company and would remain a key rating sensitivity.

Outlook: Stable

ICRA believes UIL will continue to benefit from long standing relationship with leading OEMs in agriculture and construction equipment industries, which coupled with ramp up in supplies for business from new clients, will help to record healthy revenue growth over the medium term. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability and better working capital management further strengthens the liquidity and financial risk profile of the company. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or significant debt-funded capital expenditure or increase in working capital intensity- weakens the financial risk profile of the company.

Key rating drivers

Credit strengths

Established business relationships and healthy share of business with leading global agriculture and construction equipment manufacturers: UIL is a component manufacturer, with established relationships with leading global OEMs for supplies of two product platforms – three-point link assembly for agricultural machinery and precision machine parts for agriculture and construction equipments. It has been able to maintain its sole supplier status for many products with these OEMs over the years, benefitting from its engineering and development capabilities.

Diversified geographic presence through global footprint across key markets: The company follows a global service delivery model with presence across different countries through its facilities and warehouses, which aids the company in providing multiple delivery options to its customers. Additionally, with customers located across geographies, the company's exposure to downturns in demand in a particular geography also remain limited.

Comfortable credit metrics: UIL has maintained a conservative capital structure over the years, with the company having a gearing of 0.6 times as of March 31, 2017. The debt coverage indicators have also remained at healthy levels; while the company had a Total Debt/OPBITDA of 3.4 times as of March 31, 2017, low interest charges (majority of the debt on the books is foreign currency denominated) helped the company maintain a strong Interest coverage of 6.6 times and DSCR of 2.8 times in FY2017. Despite the company's plans to incur moderate capex going forward, an expectation of improved cash accruals is expected to help the company in maintaining a healthy financial risk profile. Any significant cash outflow from the company with a view of providing an exit for its private equity investors would remain a key rating monitorable.

Credit weaknesses

High customer concentration risk with significant revenue dependence on a agricultural and construction equipment major: The company caters to a large number of customers; however, a significant amount of revenue share comes from single agriculture and construction equipment manufacturer (~43% in H1 FY2018, which has been steadily declining). While the high client concentration risk exposes the company to vulnerability in demand from the OEM, the high client concentration is mitigated to an extent by established and long-standing relationship with the client and the multiple touch points with the customer across the globe with more than 25 locations. Additionally, the company's efforts to diversify its clients has resulted in it getting business from new clients in FY2018; a ramp up in supplies for these businesses is likely to help reduce the client concentration going forward.

Exposed to vulnerability in demand: The company derives its revenues from agriculture and construction equipment industries, which are largely dependent upon growth of country's or global economy because of its linkages with the macroeconomic environment. Over the years, the company's performance had been impacted by weak demand on backdrop of global downturn in abovementioned industries.

Return indicators expected to remain at moderate levels: The company follows a global delivery model with presence through warehouses across multiple locations. The inventory holding requirements of the company thus remain high; for warehouse sales of products manufactured in Indian facilities, the inventory holding period is as high as 4-5 months. On account of the high capital employed, the company's return indicators have remained at moderate levels over the years (RoCE of 9.7% in FY2017). An expectation of improvement in operating profit margins going forward, as a result of benefits from economies of scale, is likely to help the company report a gradual improvement in return indicators going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Component Manufacturers

About the company:

Incorporated in 1984, 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 namely three-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 located in India and one is USA), equipped with manufacturing processes such as forging, machining, heat treatment and welding etc. Additionally, the company also has three warehouse facilities (two in USA and one in Germany) to cater to its overseas customers. Moreover, company is in a process to add more warehouses in order to improve the efficiency of the manufacturing facilities.

In 10M FY2018, UIL has reported an operating profit of Rs. 81.7 crore (on consolidated basis) on operating revenues of Rs. 682.8 crore as per provisional financials shared.

Key Financial Indicators - Consolidated (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	768.9	692.5
PAT (Rs. crore)	46.9	30.4
OPBDIT/ OI (%)	11.7%	8.3%
RoCE (%)	14.4%	9.7%
Total Debt/ TNW (times)	0.8	0.6
Total Debt/ OPBDIT (times)	2.5	3.4
Interest coverage (times)	8.9	6.6
NWC/ OI (%)	35.9%	38.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs Crore)**	**Date & Rating April 2018**	**Date & Rating in FY2017 January 2017**	**Date & Rating in FY2016**	**Date & Rating in FY2015**
1	Working Capital Facilities	Long Term/ Short Term	162.5	**NA**	**[ICRA] A+ (Stable)/ [ICRA] A1**	**[ICRA] A+ (Stable)/ [ICRA] A1**	-	-
2	Term Loans	Long Term	26.0	**NA**	**[ICRA] A+ (Stable)**	**[ICRA] A+ (Stable)**	-	-
3	Unallocated Limits	Long Term	10.0	**NA**	**[ICRA] A+ (Stable)**	**[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	2015	-	November 2020	6.0	[ICRA] A+ (Stable)
NA	Term Loan 2	November 2017	-	June 2021	20.0	[ICRA] A+ (Stable)
NA	Fund-Based Facilities	NA	NA	NA	162.5	[ICRA] A+ (Stable)/ [ICRA] A1
NA	Unallocated Limits	NA	NA	NA	10.0	[ICRA] A+ (Stable)

Source: Uniparts India Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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