July 30, 2019

Uniparts India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	26.0	55.0	[ICRA]A+ (Stable); Reaffirmed
Fund-based - Working Capital Facilities	162.5	172.5	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Unallocated Limits	10.0	1.0	[ICRA]A+ (Stable); Reaffirmed
Total	**198.5**	**228.5**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the strong operational performance of Uniparts India Limited (UIL) in FY2019, reflected in a robust revenue growth and expansion in profitability. UIL continues to benefit from its established relationships and share of business for supplying three-point link assemblies (3PL) and precision machined parts (PMP) to leading agriculture machinery and construction Original Equipment Manufacturers (OEM), aided by its global service delivery model and strong engineering and product development capability. The company's revenue growth in the current fiscal is likely to remain muted, in line with weak demand conditions for agricultural and off highway/ construction equipment market globally. The company's revenue growth prospects, however, would remain linked to a demand revival in its end markets, and ramp up in supplies for the aftermarket, coupled with business gained from new OEMs. The same is likely to help in moderate revenue and profitability growth over the medium term.

The ratings also favourably factor in the company's healthy financial risk profile, characterised by a conservative capital structure and strong debt coverage indicators. With a bulk of the company's capex plans already completed and the capex and investment plans over the medium term expected to remain limited to maintenance and upgradation of existing facilities, its stable cash accruals are expected to help it sustain a comfortable credit profile. ICRA notes that UIL, with a view of providing an exit option to its private equity (PE) investors[1], filed a Draft Red Herring Prospectus (DRHP) for its Initial Public Offering (IPO) in December 2018 and plans to raise up to Rs. 100 crore through fresh issue in addition to the offer of sale. In the event of its inability to provide an exit to its PE investors via an IPO, any significant cash outflow from the company would remain a concern and a key rating monitorable.

The consumer industries of the company (both its key business sectors of agri-machinery and construction equipment) remain inherently cyclical in nature. Additionally, even as the company caters to a large number of customers, a significant amount of its revenue emanates from a single agriculture and construction equipment manufacturer (~41% in FY2019), resulting in customer concentration risk. This risk is, however, mitigated to an extent by its established relationship with the customer and the multiple touch points with the customer across the globe. Additionally, UIL's efforts to diversify its customer mix through new additions is likely to help reduce the concentration going forward. While UIL's global delivery model aids its revenue growth and profitability prospects, it also results in higher blockage of funds in working capital requirements (on account of higher inventory holding). Nevertheless, benefitting from a ramp

[1] *Ashoka Investment Holdings Limited (15.9%) and Ambadevi Mauritius Holding Limited (4.8%) collectively have ~20.7% stake in the company (invested in 2007) as on date*

up in scale and various cost efficiency measures, the company reported an improved ROCE in FY2019 (15.7%). UIL's ROCE is expected to remain at current levels over the short-term, with a weakness in demand in global markets likely to constrain a further improvement in the near-term.

Outlook: Stable

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, helping it with moderate revenue and earnings growth over the medium-term. The same is likely to help the company maintain a healthy financial risk profile. The outlook may be revised to Positive if substantial growth in revenue and profitability as well as better working capital management strengthens the liquidity and financial risk profile of the company; improvement in credit metrics as a result of infusion of funds via a successful IPO could also trigger a revision in outlook. The outlook may be revised to Negative if cash accruals are lower than expected, or if significant debt-funded capital expenditure or increase in working capital intensity, leads to a deterioration in its return indicators and financial risk profile.

Key rating drivers

Credit strengths

Established relationships and healthy share of business with leading global agriculture and construction equipment manufacturers: UIL has a healthy presence in both the agriculture and construction equipment sectors, being an established component manufacturer for leading global OEMs of its two product platforms—three-point linkage assembly for agricultural machinery and precision machine parts for agricultural and construction equipment. The company has maintained a strong share of business for the above products with leading global OEMs over the years, benefitting from its strong engineering and development capabilities.

Diversified geographic presence through global footprint across key markets: UIL follows a global delivery service model, wherein it has facilities and warehouses across geographies. The same helps it provide 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 such as India) that entails a higher lead time. In addition to benefits inherent to a global delivery service model, having customers across geographies also limits UIL's exposure to downturns in demand in a particular geography.

Strong financial risk profile characterised by low gearing and healthy coverage indicators: UIL's financial risk profile remains healthy characterised by conservative capital structure and strong debt coverage indicators. Most of the debt on the company's books are working capital borrowings, with its business being characterised by high working capital intensity. As of March 31, 2019, at a consolidated level, the company had a total debt of Rs. 345.6 crore on its books; the capital structure remains conservative with the company having a gearing of 0.8 time as of March 31, 2019. In spite of an increase in debt on account of capex incurred and increase in working capital intensity, an improvement in profitability helped the debt coverage indicators remain at healthy levels, with the company having an interest coverage of 7.8 times and Total Debt/OBDITA of 2.6 times in FY2019. Going forward, with its capex and investment plans remaining at low to moderate levels, UIL's cash accruals are likely to help it maintain a healthy financial risk profile.

Credit challenges

High customer concentration risk with significant revenue dependence on an agricultural and construction equipment major: UIL caters to a large number of customers; however, a significant amount of revenue share comes from a single agriculture and construction equipment manufacturer (~41% in FY2019; although this has been declining gradually). While the high customer concentration risk exposes the company to vulnerability in demand from the OEM, the high customer concentration risk is mitigated to an extent by its established relationship with the customer and the multiple touch points with the customer across the globe. Additionally, UIL's efforts to diversify its customer mix helped reduce its single customer dependence to an extent; a ramp up in supplies for its other businesses is likely to help reduce the concentration risk, going forward.

Exposed to vulnerability in demand as end-user industries are inherently cyclical in nature: The company derives its revenues from agriculture and construction equipment industries, which are largely dependent on global/ macro-economic growth. A bulk of UIL's revenues emanate from the exports markets, with domestic supplies constituting only ~15% of its revenues (primarily export requirements of domestic tractor OEMs). As such, UIL's prospects remain linked to global demand conditions, especially in the North American market, which constitutes ~56% of the company's revenues. Over the years, the farm equipment industry in North America has faced demand cyclicality, which have impacted UIL's growth prospects. The agriculture fundamentals in North America are expected to remain weak over the short-term with trade uncertainty and late weather driven planting delays expected to suppress farm incomes in the current fiscal.

Working capital-intensive nature of operations mandated by global delivery model: UIL's working capital intensity remains high (levels of 43% in FY2019), resulting in significant utilisation of funds for working capital requirements; the same is a consequence of its global delivery service model, wherein it has facilities and warehouses across various locations to serve its customers in a timely manner. The company's inventory days remain high; for warehouse sales of products manufactured at Indian manufacturing locations, the inventory holding period is about 5-6 months, which includes transportation and warehousing time, till the products are picked up by customers.

Liquidity position

UIL reported strong fund flow from operations in FY2019, benefitting from improved profitability. The company, however, reported negative cash flow from operations, led by an increase in working capital intensity and consequent enhanced blockage of funds in its working capital requirements. UIL incurred Rs. 56.7 crore in FY2019 towards enhancement of capacity, which coupled with the debt repayment obligations, constrained its free cash flows and led to higher dependence on external borrowings. Going forward, with the company's capex plans expected to remain limited to maintenance and upgradation of existing facilities, its dependence on external financing will continue to remain primarily dependent on its ability to manage its working capital intensity.

The company's working capital utilisation has remained high with average drawing power utilisation around levels of 90% over the past one year. Its cash and liquid investments of Rs. 15.1 crore as of March 31, 2019, however, provide some comfort.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Uniparts India Limited. As on March 31, 2019, the company had four subsidiaries (and one step down subsidiary), which are enlisted in Annexure-2.

About the company

Incorporated in 1994[2], UIL 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 both the agriculture and construction sectors. It also manufactures other products such as hydraulic cylinders (for agriculture and construction sectors) and power take-off devices (for the agriculture sector). The company, along with its wholly owned subsidiaries, has six manufacturing units across India (five units) and USA), equipped with manufacturing processes such as forging, machining, heat treatment and welding etc. Additionally, the company has three warehouse facilities (two in USA and one in Germany) for its overseas customers.

Its PE investors (Ashoka Investment Holdings Limited with 15.9% and Ambadevi Mauritius Holding Limited with 4.8% stakes in it) collectively hold ~20.7% stake in the company as on date, with the rest largely held by the promoters.

Key financial indicators - Consolidated

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	841.8	1,060.6
PAT (Rs. crore)	51.6	70.0
OPBDIT/OI (%)	10.2%	12.7%
RoCE (%)	14.1%	15.7%
Total Debt/TNW (times)	0.7	0.8
Total Debt/OPBDIT (times)	2.9	2.6
Interest Coverage (times)	9.5	7.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] Promoters commenced the business in 1984

Rating history for last three years

	Instrument	Type	Current Rating (FY2020) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 April 2018	Date & Rating in FY2018 January 2017	Date & Rating in FY2017 -
1	Fund-based - Working Capital Facilities	Long Term/ Short Term	172.5	-	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**	**-**
2	Term Loans	Long Term	55.0	47.2	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**-**
3	Unallocated Limits	Long Term	1.0	-	**[ICRA]A+ (Stable)**	**[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	Fund-based - Working Capital Facilities	-	-	-	172.5	[ICRA]A+ (Stable)/[ICRA]A1
NA	Term Loan – 1	Nov 2018	-	Oct 2023	20.0	[ICRA]A+ (Stable)
NA	Term Loan – 2	Oct 2018	-	Apr 2023	15.0	[ICRA]A+ (Stable)
NA	Term Loan – 3	Nov 2017	-	Apr 2021	10.0	[ICRA]A+ (Stable)
NA	Term Loan – 4	Jan 2018	-	Apr 2021	3.0	[ICRA]A+ (Stable)
NA	Term Loan – 5	Feb 2018	-	Apr 2021	4.0	[ICRA]A+ (Stable)
NA	Term Loan – 6	Aug 2018	-	Apr 2021	3.0	[ICRA]A+ (Stable)
NA	Unallocated Limits	-			1.0	[ICRA]A+ (Stable)

Source: Uniparts India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gripwel Fasteners Private Limited	100%	Full Consolidation
Uniparts USA Limited	100%	Full Consolidation
Uniparts Olsen Inc. [3]	100%	Full Consolidation
Uniparts Europe B.V.	100%	Full Consolidation
Uniparts India GmbH	100%	Full Consolidation

[3] Step down subsidiary

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