May 01, 2020

Uniparts India Limited: Update

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating update follows the impact of the novel coronavirus (COVID-19) outbreak on the global auto and off highway component industry. The component supply chain disruption—largely limited to China during January and February 2020—has snowballed into a demand shock, owing to rapid spread of the pandemic and its adverse impact on the macro-economic environment. An unprecedented large-scale lockdown (across select geographies) has disrupted production of OEMs and their supply chain from March 2020 onwards.

The prospects of Uniparts India Limited (UIL) remain linked to global demand conditions, especially in the North American market, which constituted ~57% of the company's revenues in FY2020 (~56% in FY2019). The company derives its revenues from agriculture and construction equipment industries and follows a global delivery service model with facilities and warehouses across geographies. Even as its Indian manufacturing facilities are shut down following the lockdown announced by the Government of India (an initial 21-day lockdown was recently extended till May 3, 2020), the facilities of the company located in USA (Uniparts Olsen Inc. plant and warehouse at Elridge, Iowa, USA as well as warehouse located in Augusta, Georgia) continue to operate till date, and has not been subject to any shutdowns. While the demand from the construction equipment segment (for precision machined parts) has been marginally impacted by the ongoing pandemic, the company's major customers continue to operate their plants, following a guidance from the US administration that continued operations of companies operating in "essential critical infrastructure industry", remain essential for ensuring community wellbeing.

The prospects of the underlying end-user industries remain largely dependent on the global macro-economic environment. With macro-economic growth expected to remain weak across geographies, UIL is likely to witness lower earnings in the near term led by lower sales and associated decline in operating leverage; the impact is likely to be higher in the domestic market, if the OEMs are not able to make up for the lost production/sales and social distancing makes it difficult to operate at optimum capacity. Given the environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements remain key. ICRA believes that UIL remains adequately positioned from a liquidity standpoint with unutilised lines of credit (buffer of ~Rs. 50-60 crore in working capital limits) as on March 31, 2020. Against these sources of cash, the company has limited debt repayments of ~Rs. 5.5 crore in Q1 FY2021, in addition to supporting its fixed expenses. The company met its debt obligations in March and April 2020 in a timely manner, and continues to evaluate the need to avail moratorium and debt repayments (related to packing credit loans) for May 2020 (under the 'Covid-19 – Regulatory Package' announced by the Reserve Bank of India) to further enhance its liquidity; the tenure of the ongoing lockdown is likely to shape the company's decision in this regard.

Even as the company's liquidity remains adequate to tide over the current lockdown, the company's financial performance continues to remain exposed to any significant weakness in demand in the underlying end-user segments. The impact of the outbreak on consumer demand/sentiments over the coming quarters remains uncertain and would need to be assessed. ICRA will continue to monitor the developments and take suitable rating action if the lockdown is prolonged and the supply chain remains impacted, leading to pressure on the liquidity position/credit profile of the company.

ICRA notes that UIL's attempts to provide an exit to its private equity (PE) investors[1] through an Initial Public Offering (IPO) have not been successful till date. No exit route has been finalised for the PE. ICRA would continue to monitor the events, with any significant cash outflow from the company remaining a key rating monitorable.

Key rating drivers and their description

Credit strengths

Established relationships and healthy share of business with leading global agriculture and construction equipment manufacturers – UIL has a healthy presence in 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 with facilities and warehouses across geographies. This 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.

Healthy 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. The capital structure remains conservative with the company having a gearing of 0.8 time

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

as of March 31, 2019. In spite of high working capital intensity, 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.

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 (~39% in FY2020; 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; prolonged demand slowdown in end-user industries following the global pandemic could moderate credit metrics – 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 constituted ~57% of the company's revenues in FY2020 (~56% in FY2019). Over the years, the farm equipment industry in North America has faced demand cyclicality, which have impacted UIL's growth prospects. A prolonged slowdown in demand in industries catered across global markets on account of the COVID-19 outbreak could lead to a moderation in the company's debt coverage metrics over the short term.

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 in India, 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: Strong

UIL's liquidity position remains **adequate**, characterised by availability of adequate unutilised lines of credit (buffer of

~Rs. 50-60 crore in working capital limits). Even as the ongoing lockdowns in view of the global pandemic is expected to impact cash flows over the short-term, the entity continues to enjoy sufficient liquidity to meet its fixed overheads and debt repayments (~Rs. 15 crore in FY2021). The company is also likely to avail moratorium in debt servicing for a part of its debt obligations, which would help it maintain adequate liquidity. The capex plans over the short-term are expected to remain limited, with discretionary capex being postponed; the company continues to have sufficient capacity to cater to customer demands over the near term.

Rating sensitivities

Positive triggers – Given the ongoing weakness in the macro-economic environment across global markets, a rating upgrade in the near term remains unlikely. However, an improvement in the macro-economic environment and demand in the underlying segments following the resolution to the ongoing COVID-19 outbreak, which leads to a healthier than expected improvement in the company's operating metrics and debt coverage indicators, would be favourably considered for a rating upgrade.

Negative triggers – The ratings may be revised downwards if the weakness in demand in the underlying end-user segments because of the ongoing pandemic is more prolonged than currently expected, thereby adversely impacting the company's working capital intensity, profitability and credit metrics. Specific credit metrics that could result in a downgrade include interest coverage lower than 7.0 times on a sustained basis. Any significant cash outflow from the company with a view of providing an exit option to its PE investors would remain a concern and a key rating monitorable.

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 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, among others. 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.

[2] *Promoters commenced the business in 1984*

Key financial indicators (Consolidated)

	FY2018	FY2019
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 Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDIT (times)	2.9	2.6
Interest Coverage (times)	9.5	7.8
DSCR	3.5	3.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 1-May-20	Date & Rating in FY2020 30-Jul-19	Date & Rating in FY2019 30-Apr-18	Date & Rating in FY2018 10-Jan-17
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**	**[ICRA]A+ (Stable)/ [ICRA] A1**
2	Term Loans	Long Term	55.0	46.0	**[ICRA]A+ (Stable)**	**[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)**	**[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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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.

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