November 23, 2023

Jiangyin Uni-Pol Vacuum Casting India Pvt. Ltd.: Ratings reaffirmed; removed from rating watch with developing implications and Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based / Cash Credit	91.25	111.00	[ICRA]BBB (Negative); reaffirmed and removed from rating watch with developing implications and Negative outlook assigned
Long-term – Fund-based / Term Loan	60.10	40.92	[ICRA]BBB (Negative); reaffirmed and removed from rating watch with developing implications and Negative outlook assigned
Short-term – Non-fund based	0.00	38.60	[ICRA]A3+; reaffirmed and removed from rating watch with developing implications
Long-term/ Short-term – Unallocated	33.65	9.48	[ICRA]BBB (Negative) / [ICRA]A3+; reaffirmed and removed from rating watch with developing implications and Negative outlook assigned
Long-term/ Short-term – Interchangeable	(91.25)	0.00	-
Long-term – Working Capital Term Loan	15.00	0.00	-
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA had placed the ratings of Jiangyin Uni-Pol Vacuum Casting India Pvt. Ltd. (JUPL or the company) on watch with developing implications in August 2022, following the acquisition of its promoter group, Uni-Pol Group, China (Uni-Pol), by the Doncasters Group, UK (Doncasters). Doncasters has successfully completed the acquisition of the Uni-Pol Group, with the legal and compliance formalities having been completed in FY2023. Accordingly, the ratings have been removed from watch with developing implications.

The rating reaffirmation factors in JUPL's stable business profile as one of the leading turbine wheel manufacturers in India, catering to multiple manufacturers of turbochargers in the automotive sector. ICRA notes that the company has been able to scale up its standalone revenues to Rs. 483 crore in FY2023, supported by steady volume offtake from its key customers and expects the revenue growth to sustain, going forward, given its well-established relations with reputed clients in the turbocharger segment with healthy wallet share globally. Furthermore, its geographically diversified customer base provides a cushion against region-specific operational risks to an extent. While the company is exposed to fluctuations in foreign exchange (forex) rates, given the sizeable share of imports in its sourcing mix, there is some natural hedging from its operations, since it derives ~80-85% of its revenues from exports.

The Negative outlook on the long-term rating of JUPL reflects the company's weakened liquidity position due to the high working capital intensive nature of operations (32% in FY2023 as per provisional financials), mainly due to extended receivables cycle for exports. Accordingly, the company's reliance on external borrowings remains high to fund its working capital requirements, resulting in near-total utilisation of its working capital limits, and modest free cash and liquid investments (Rs. 2.8 crore as on March 31, 2023). The company expects to improve this through enhancement of its working capital facilities, better working capital management, expected fund infusion of $5.2 million from its parent company and/or freeing up encumbered fixed deposits. These remain critical to improving JUPL's liquidity position and, accordingly, remain key monitorables.

The ratings also factor in the extensive experience of the promoter group, Doncasters[1], in the automotive components manufacturing industry, with global presence in the automotive, aerospace and gas turbine business verticals. Furthermore, with a presence in similar business segments, the parentage also provides JUPL with operational synergies. ICRA also notes that the parent company has demonstrated its intent to support JUPL through external currency borrowings (ECB) of Rs. 42.8 crore extended in FY2023, as well as fixed deposits provided as collateral for some of JUPL's borrowings, which underscores the strategic importance JUPL for the Group, and the commitment to the same.

JUPL's capital structure remains moderately leveraged with a gearing of 1.3 times as on March 31, 2023 (provisional), and this is also likely to continue, going forward, given the working capital-intensive nature of operations. ICRA also takes note of the weakening in JUPL's operating profit margin (OPM) to 2.2% in FY2023 (as per provisional financials) from 11.2% in FY2022; although it was partially caused by one-time accounting adjustments of Rs. 19.0 crore at the OPBDITA level to accommodate changes in accounting policies, in addition to the commodity inflation impact, and these are expected to have stabilised in the current year. During H1 FY2024 (provisional financials), the company continued its revenue growth momentum, clocking revenues of ~Rs. 330 crore, and a recovery in its OPM to 8.5% supported by softening in the input cost and the general price hikes undertaken by the company with key clients.

Although JUPL has a subsidiary in Mexico (Uni-Pol Mexico), ICRA has consolidated the financials of this entity while assigning the ratings as ICRA is unable to evaluate the performance of the subsidiary in the absence of adequate information on the same. Further, as guided by the management, ICRA does not expect any funding support from JUPL towards Uni-Pol Mexico, given the intent of the parent entity (Doncasters) to extend funding support directly to the entity in case of any requirements.

Key rating drivers and their description

Credit strengths

Vast experience of promoter group in the automotive components manufacturing industry – JUPL is a part of the Doncasters Group, which has an established global presence in the turbine wheel manufacturing space, with its manufacturing units located across Europe, the Americas and Asia. The Group has also backward integrated into manufacturing superalloys, the key raw material used in the manufacturing of turbine wheels. Following the acquisition of the Uni Pol Group by Doncasters, the combined entity is estimated to be the largest player in the turbine wheel manufacturing space, with a healthy presence with major turbocharger manufacturers globally.

Established relationships with reputed clients with healthy wallet share – JUPL enjoys established relationships with reputed clients, i.e., turbocharger manufacturers in the automotive sector. With its long-standing relations with leading turbocharger manufacturers across the globe, JUPL enjoys sufficient revenue visibility and healthy wallet share through long-term contracts with its customers. The limited competition and organised nature of the turbine wheel market provides the existing players with a stable business profile and steady growth opportunities.

Geographically diversified customer base provides cushion against region-specific operational risks – JUPL's clientele comprises domestic as well as overseas clients, with a dominant share from export revenue over the years. With the company exporting turbine wheels to multiple overseas markets such as Europe and North America, it is protected to an extent from region-specific operational risks and demand downturns impacting particular geographical regions. Further, exports provide natural hedging to an extent, given the imports undertaken by the company.

[1] *The Doncasters Group, UK, and its subsidiaries*

Credit challenges

Concentration on the automotive sector for revenues, exposed to ongoing electrification trends in the sector – JUPL derives most of its revenues from the automotive sector. With its products predominantly used in diesel automotive engines, the company's operations remain exposed to the electrification trends in the automotive sector over the medium-term. However, the gradual pace of electrification across different automotive segments, and requirement of turbochargers in the alternative powertrains, such as hybrid vehicles, act as mitigants over the near to medium-term.

High working capital intensity due to long receivables cycle from exports segment – JUPL's operations are characterised by high working capital intensity (32% in FY2023 as per provisional financials) because of long receivables cycle in its exports business. As a result, the company's working capital credit facilities are almost completely utilised, which coupled with limited cash and liquid investments on its balance sheet, have resulted in a stretched liquidity position. While the company expects to improve its liquidity position through a combination of factors including enhancement of its working capital facilities, better working capital management, expected fund infusion from its parent company and/or freeing up of encumbered fixed deposits going forward, developments on these fronts remain a key monitorable.

Moderately leveraged capital structure – With a gearing of 1.3 time as on March 31, 2023 (as per provisional financials), JUPL's capital structure remains moderately leveraged. That said, with the high working capital intensity of operations and expected scale up in revenues, the company is expected to continue to remain dependent on working capital borrowings going forward as well. Additionally, it has availed term loans to fund capital expenditure (capex) in the recent past, and has also received ECBs from its parent, as means of financial support to meet its cash flow requirements. Furthermore, the company's coverage indicators weakened in FY2023 primarily because of contraction in earnings and higher in debt levels. However, ICRA expects that the leverage is likely to reduce, going forward, in the absence of any large debt-funded capex over the near to medium term, and scheduled repayment of term debt.

Liquidity position: Stretched

JUPL's liquidity profile is stretched, with limited buffer in the form of unutilised working capital facilities and cash and liquid investments balance (Rs. 2.8 crore as on March 31, 2023). Although the company is expected to generate retained cash flows of Rs. 15.0–20.0 crore annually over the medium term, it also has sizeable debt repayment obligations (Rs. 25.1 crore in the current fiscal, and ~Rs. 8.0–9.0 crore per annum annually, thereafter). Further, the company also plans to undertake capex of Rs. 10.0–12.0 crore annually for capacity expansion and maintenance. Accordingly, the company's ability to improve its liquidity position, going forward, through additional credit lines from lenders, free up of encumbered fixed deposits worth ~Rs. 27 crore (by providing other collateral such as physical assets), and infusion of funds from the parent company ($5.2 million expected in the near-term) to bridge any temporary cash flow mismatches, would remain a monitorable.

Rating sensitivities

Positive factors – The outlook on the long-term rating could be revised to Stable when the company demonstrates a sustained improvement in its liquidity position and earnings. The ratings could be upgraded if the company exhibits significant growth in revenue, coupled with improvement in profitability on a sustained basis. Maintaining TD/OPBDITA below 3.5 times, on a sustained basis, would also be a credit positive.

Negative factors – The ratings could be downgraded if the company is unable to improve its liquidity position through funding support from its parent or enhancement in working capital facilities. The ratings could also be revised downwards if JUPL shows considerable de-growth in revenues or weak profitability, resulting in a stretched liquidity position or lack of commensurate returns from the recent capex affect its credit metrics and liquidity position on a sustained basis. Any upstreaming of funds to support parent/Group entities that impacts its credit metrics and liquidity position, on a sustained basis, would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of JUPL.

About the company

JUPL, incorporated in FY2009, is positioned as a tier-2 component supplier, engaged in manufacturing turbine wheels used in turbochargers of vehicles. The company supplies turbine wheels mainly to the automotive industry, for passenger vehicle (PV) and commercial vehicle (CV) segments. It was part of the Uni-Pol Group, which was acquired by the Doncasters Group in FY2023. JUPL, in turn, owns ~99.9% stake in a manufacturing unit in Mexico, UPM Casting SA DE CV, which is also involved in providing precision components to the automotive and aerospace industries.

- JUPL has a manufacturing capacity of 10.0 million units per annum. Its manufacturing plant is at Pimple Jagtap, Pune (Maharashtra). JUPL's revenue profile is dominated by exports, which typically contribute ~80-85% of its standalone revenues.

Key financial indicators

JUPL (Standalone)	FY2021 Audited	FY2022 Audited	FY2023 Provisional
Operating Income (Rs. crore)	277.3	388.6	483.1
PAT (Rs. crore)	10.6	18.4	-4.2
OPBDIT/OI (%)	10.0%	11.2%	2.2%
PAT/OI (%)	3.8%	4.7%	-0.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.7	2.4
Total Debt/OPBDIT (times)	5.4	3.2	16.5
Interest Coverage (times)	3.1	3.6	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: JUPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: ICRA notes the delay in servicing JUPL's debt obligations towards one of its lenders on account of technical issues at the lender's end, despite the company maintaining sufficient funds to service the debt obligations. As per clarifications sought from the lender concerned and the management, along with the supporting documentation (including the no default statements for the period concerned) submitted by the company, ICRA understands that the delays are technical in nature and are not because of inadequacy of funds or a lack of willingness to pay the dues. ICRA has, thus, considered the missed payments as a technical delay and not a default, in line with its Policy on Default Recognition.

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 Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date and Rating in FY2022	Date and Rating in FY2021
					Nov 23, 2023	Aug 26, 2022	May 21, 2021	-
1	Cash Credit	Long-term	111.00	NA	[ICRA]BBB(Negative)	[ICRA]BBB&	[ICRA]BBB (Stable)	-
2	Term Loans	Long-term	40.92	37.11	[ICRA]BBB(Negative)	[ICRA]BBB&	[ICRA]BBB (Stable)	-
3	Non Fund Based Facilities	Short-term	38.60	NA	[ICRA]A3+	-	-	-
4	Unallocated Limits	Long-term / Short-term	9.48	NA	[ICRA]BBB(Negative)/ [ICRA]A3+	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB (Stable) / [ICRA]A3+	-
5	Interchangeable Facilities	Long-term / Short-term	-	-	-	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB (Stable) / [ICRA]A3+	-
6	Working Capital Term Loan	Long-term	-	-	-	[ICRA]BBB&	-	-

Source: Company &: On rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit Facilities	Simple
Term Loan Facilities	Simple
Non Fund Based Facilities	Very Simple
Unallocated Limits	Not Applicable

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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	111.00	[ICRA]BBB (Negative)
NA	Term Loan -1	Jan-2022	NA	Dec-2027	30.00	[ICRA]BBB (Negative)
NA	Term Loan -2	Dec-2020	NA	Nov-2025	10.92	[ICRA]BBB (Negative)
NA	Non-fund Based Limits	NA	NA	NA	38.60	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	9.48	[ICRA]BBB (Negative)/ [ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

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