March 14, 2024

U K B Electronics Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Term Loans	49.50	66.50	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based limits – Cash Credit	161.00	141.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund based limits – LC/BG	90.00	125.00	[ICRA]A2; reaffirmed
Long-term – Fund-based limits – Cash Credit*	(12.50)	(42.50)	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund based limits – LC/BG^	(30.00)	(76.00)	[ICRA]A2; reaffirmed
Long-term/ Short-term – Unallocated Limits	32.00	0.00	-
Total	**332.50**	**332.50**	

**Instrument details are provided in Annexure-I; */^ - sublimits*

Rationale

The reaffirmation of ratings for U K B Electronics Private Limited (UEPL) continues to factor in its established market position and its promoter's extensive experience of more than two decades in the manufacturing of electronic components, primarily for the white goods industry. This has resulted in continued healthy performance in FY2023 and FY2024, as marked by steady revenue growth and stable internal accrual generation. The company's operating income grew by 13.2% year-on-year (YoY) to Rs. 534.6 crore in FY2023 and 8.5% YoY in 10M FY2024 (as per provisional financials). The growth was lower than expectations owing to delays in anticipated approvals from various regulatory authorities, leading to deferment in commercialisation of its Rajasthan unit and lower export sales in FY2023. The same also resulted in some moderation in its operating profit margin (OPM) in FY2023 and 10M FY2024. However, the company has received the requisite approvals from state/ regulatory authorities and subsequent approvals from several customers in its strategic electronics segment, including the Indian Navy, Ministry of Defense, Ministry of Railways (including Vande Bharat), Hindustan Shipyard Ltd, Bharat Dynamics Ltd, among others during FY2024. UEPL is one of the four companies to have received such approvals, indicating huge potential for growth over the medium term. Also, the company has already received confirmed orders worth ~Rs. 20 crore as on date from some of these customers. The scale-up of revenues from the Rajasthan facility remains a key monitorable aspect. UEPL's accrual generation and debt coverage metrics are expected to remain healthy going forward, supported by the recovery in export sales in the current fiscal and ongoing enhancement of capacities, coupled with a fully backward-integrated scale of operations, a wide product base and diversification into strategic electronics. Additionally, the ratings continue to factor in UEPL's reputed customer base in the white goods industry, comprising Panasonic India Private Limited (Panasonic), Samsung India Electronics Private Limited (Samsung), IFB Industries Limited (IFB), L.G. Electronics India Private Limited (LG), Daikin Airconditioning India Private Limited[1] (DAIPL) and Haier Appliances India Private Limited (Haier). Established relationships and increasing share of business with its key customers have resulted in repeat order inflow over the years.

The ratings are, however, constrained by the high working capital intensity of the business, driven by elevated inventory levels required for sustaining the manufacturing operations and relatively higher receivable levels. UEPL operates within an intensely competitive industry, and its profit margins are vulnerable to the volatility in prices of key raw materials and foreign exchange

[1] Rated *[ICRA]AAA (Stable)*

rates. However, pass-through mechanisms and a natural hedge through presence in exports, largely mitigate the risk. UEPL also remains exposed to high customer concentration risk, as its top 10 customers have accounted for 70-75% of its revenues in recent years. However, this customer concentration is expected to moderate going forward, aided by diversification initiatives undertaken by the company and an increased share of business from exports, strategic electronics and industrial segments.

The Stable outlook on the long-term rating reflects ICRA's opinion that UEPL will continue to benefit from its business position, established relationships with its key customers and steady demand from key end-user industries, resulting in a continued adequate credit profile.

Key rating drivers and their description

Credit strengths

UEPL's established market position and extensive experience of its promoters in the electrical and electronics industry – Incorporated in 1996, UEPL has established itself as one of the leading manufacturers of electronic components, catering primarily to the consumer durables and white goods industry. This has been supported by its diverse product profile, established operational track record and sizeable manufacturing set-up. Moreover, the company has been promoted by the Tayal family, who have extensive experience of more than two decades in the electrical and electronics manufacturing business.

Backward integrated and geographically diverse manufacturing set up with sizeable capacities support business growth and profitability – Over the years, UEPL has set up eight manufacturing facilities across Noida (Uttar Pradesh), Pune (Maharashtra), Neemrana (Rajasthan), Goa and Chennai, to cater to its customers across the country. Sizeable manufacturing capacities and complete backward integration in operations have supported the company's revenue growth and profitability. ICRA notes that UEPL's OPM moderated to 10.7% in FY2023 and 10.0% in 10M FY2024 (as per provisional financials) from 11.8% in FY2022, owing to higher operating costs for enhanced capacities at its Rajasthan unit. However, the same is expected to improve over the near term given the development of niche products and the recently received approvals (one among four companies to have received so) and orders from various customers in its strategic electronics segment, which also indicates the huge growth potential over the medium term.

Customer base includes reputed domestic and global companies of the white goods industry – Given its diverse product mix and geographically spread manufacturing facilities, the company has been able to develop a reputed customer base and established relationships with its key customers. These include several domestic and global companies from the white goods industry, such as Panasonic, Samsung, LG, Voltas, Haier, Sony Electronics, Stanley Black and Decker Inc. and IFB Industries Limited. Moreover, a sizeable share of business with its key customers and healthy diversification of revenues through business segments such as exports and strategic electronics further support UEPL's business profile.

Adequate financial risk profile – The company has an adequate financial risk profile marked by healthy revenue growth over the years, steady accrual generation and a comfortable capital structure and coverage position. UEPL reported a healthy revenue growth of 13.2% YoY in FY2023 to Rs. 534.6 crore and 8.5% YoY growth in 10M FY2024 (as per provisional financials), driven by a healthy order offtake, new customer additions, enhanced capacities and higher export sales in the current fiscal. However, the same was lower than expected due to delays in anticipated approvals from various regulatory authorities, leading to deferment in the commercialisation of its Rajasthan unit. The company's wide product base and backward integration of operations resulted in a healthy OPM over the years, contributing to a comfortable capital structure and adequate debt protection metrics, as reflected by total debt/ OPBDITA of 3.1 times and interest coverage of 3.5 times in FY2023. This is expected to improve over the medium term, aided by healthy demand, diversification of business segments, especially with scale-up at the Rajasthan unit and new customer additions. Moreover, UEPL's liquidity position is adequate, supported by healthy cash flow generation and cushion in the form of undrawn bank lines.

Credit challenges

Profit margins vulnerable to volatility in raw material prices; however, pass through mechanism largely mitigates the risk – The company's OPM are susceptible to fluctuations in the prices of key raw materials, copper and polyvinyl chloride (PVC), which are sourced from domestic and international vendors. Also, the margins also remain susceptible to volatility in foreign exchange rates, given that part of the raw material requirement is met through imports. However, the same is mitigated to an extent by the natural hedge enjoyed by UEPL. Additionally, UEPL has demonstrated its ability to largely pass on the increase in raw material costs, largely mitigating the risk. Coupled with increasing economies of scale and increasing level of backward integration contributed to a healthy OPM for the company. UEPL also operates within an intensely competitive market; however, it benefits from its established market position in the industry, its integrated manufacturing set-up and established relationships with its key customers.

High customer concentration risk – The company is exposed to high customer concentration risk, as its top 10 customers have accounted for 70-75% of its revenues in the past three fiscals. This is accentuated by UEPL's sales being largely driven by the consumer durables/ white goods industry due to its established presence in the business since its inception. However, this customer concentration risk is expected to moderate over the next few fiscals, with an increased share of business and the addition of new customers from other business segments such as exports, industrial and strategic electronics.

Working capital-intensive nature of operations – Given the integrated manufacturing setup, a wide variety of products manufactured and dependence on imports for partial raw material sourcing, the company is required to maintain high inventory levels to support its manufacturing activity. Coupled with a receivable cycle of around 70-80 days, this has led to a high working capital intensity of the business, as marked by NWC/OI[2] of 30-35% in recent years, translating into relatively higher utilisation of the working capital limits availed from the bank. However, the company has regularly enhanced its bank lines to partly fund its incremental working capital requirements, given the strong revenue growth reported in recent years.

Liquidity position: Adequate

UEPL's liquidity is adequate, supported by steady internal accrual generation and a cushion of Rs. 50 crore in the form of undrawn bank lines as on December 31, 2023. The company plans to incur capital expenditure (capex) of ~Rs. 55 crore in FY2024, towards setting up incremental capacities in its Pune unit, following which maintenance capex of Rs. 4-5 crore per annum post that. The same is expected to be funded through a mix of debt and internal accruals. UEPL also has debt repayment obligations of Rs. 11-12 crore per annum over the next two fiscals. However, UEPL's cash flow generation is expected to be more than sufficient to meet its debt repayment obligations over the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade UEPL's ratings if the company reports healthy revenue growth and sustenance of margins, resulting in strengthening of its debt protection metrics and liquidity profile on a sustained basis. Specific credit metrics that could lead to an upgrade of UEPL's ratings include total debt/OPBDITA of less than 2.5 times on a sustained basis.

Negative factors – Pressure on UEPL's ratings could arise if considerable decline in internal accrual generation, significant debt-funded capex or deterioration in the working capital cycle, results in the weakening of the company's credit metrics and liquidity position on a sustained basis. Specific credit metrics that could lead to a downgrade of UEPL's ratings include interest coverage of less than 4.0 times on a sustained basis.

[2] *Net working capital/ Operating income*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1996, UEPL is involved in the manufacturing of various electronic and electrical products such as wires, cables, power cords, wire harnesses, connectors, remotes, printed circuit boards (PCBs) and brass pins, which find application in white goods, automotive and industrial products. The company has been promoted by members of the Tayal family and has manufacturing facilities in Noida, Pune, Goa, Neemrana and Chennai, along with two warehouses in Pune and Ahmedabad.

Key financial indicators (audited)

UEPL – Standalone	FY2022	FY2023
Operating income	472.4	534.6
PAT	23.4	21.4
OPBDIT/OI	11.8%	10.7%
PAT/OI	5.0%	4.0%
Total outside liabilities/Tangible net worth (times)	2.2	2.0
Total debt/OPBDIT (times)	3.0	3.1
Interest coverage (times)	4.9	3.5

PAT: Profit after tax; OI: Operating income; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 Mar 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 14, 2024	Jan 31, 2023	Jan 5, 2023	-	-
1	**Term Loans**	Long-term	66.50	66.50	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-	-
2	**Cash Credit**	Long-term	141.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-	-
3	**LC/BG**	Short-term	125.00	-	**[ICRA]A2**	**[ICRA]A2**	-	-	-
4	**Cash Credit***	Long-term	(42.50)	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-	-
5	**LC/BG^**	Short-term	(76.00)	-	**[ICRA]A2**	**[ICRA]A2**	-	-	-

6	**Unallocated Limits**	Long-term/ Short-term	0.00	-	-	**[ICRA]BBB+ (Stable)/[ICRA]A2**	**[ICRA]BBB+ (Stable)/[ICRA]A2**	-	-

**/^ sub-limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based limits – Term loans	Simple
Fund based limits – Cash Credit	Simple
Non-fund-based limits – LC/BG	Simple
Fund based limits – Cash Credit*	Simple
Non-fund-based limits – LC/BG^	Simple

**/^ - sub-limits*

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term Loans**	FY2022	7.0%-8.0%	FY2028	66.50	[ICRA]BBB+ (Stable)
-	**Cash Credit**	NA	NA	NA	141.00	[ICRA]BBB+ (Stable)
-	**LC/BG**	NA	NA	NA	125.00	[ICRA]A2
-	**Cash Credit***	NA	NA	NA	(42.50)	[ICRA]BBB+ (Stable)
-	**LC/BG^**	NA	NA	NA	(76.00)	[ICRA]A2

Source: *Company; */^ - sub-limits*

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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