January 28, 2022

Uniparts India Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	15.00	25.00	[ICRA]A+ Reaffirmed; Outlook revised to Positive from Stable
Long-term – Unallocated	10.00	-	-
Long-term/ Short-term – Fund-based Working Capital Facilities	165.00	165.00	[ICRA]A+ Reaffirmed; Outlook revised to Positive from Stable; [ICRA]A1 Reaffirmed
Total	**190.00**	**190.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to positive takes into the account an expected improvement in the credit profile of Uniparts India Limited (UIL or the company), aided by a continuation of strong operating performance and consequent cash accruals. In the fiscal till date, the company has recorded a healthy growth in its scale of operations and operating profitability, benefitting from various cost efficiency measures (consolidation of revenues at manufacturing facilities leading to economies of scale, exiting low margin products and transfer of manufacturing of some products to India from the US, leading to higher margins). A continued healthy performance is likely to help in further reducing the company's dependence on external debt, and consequently further strengthen its debt coverage indicators.

The ratings continue to favourably factor in the company's global service delivery model, strong engineering and product development capabilities for supplying three-point link (3PL) assemblies and precision machined parts (PMP). It has an established relationship and share of business with some of the leading agriculture machinery and construction Original Equipment Manufacturers (OEMs). Further, UIL's revenues are geographically diversified, limiting its exposure to downturns in a particular geography. Even as its Indian manufacturing facilities were shut down for a certain duration following the Covid-19 induced lockdowns, UIL's facilities in USA (the Uniparts Olsen Inc. plant and warehouses at Elridge, Iowa and Augusta, Georgia) continued to operate and supply customers. Accordingly, the impact of lockdowns on UIL's scale of operations has remained low, recording a robust growth in top line in 9M FY2022.

The ratings also consider the company's healthy financial risk profile, characterised by a conservative capital structure (TD/TNW of 0.3 time in FY2021) and strong debt coverage indicators (TD/OPBDIT and Interest Coverage of 1.3 times and 14.9 times, respectively, in FY2021). Aided by the strong operating performance in the current fiscal, the debt coverage indicators of the entity are expected to remain robust.

UIL's end-user industries (agri-machinery and construction equipment) remain inherently cyclical in nature. Additionally, even as the company caters to multiple customers, a significant amount of its revenue emanates from a single agriculture and construction equipment manufacturer (~36% in FY2021; albeit declining YoY), 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), and consequently constrains its return indicators.

ICRA notes that UIL's attempts to provide an exit to its private equity (PE) investors through an Initial Public Offering (IPO)/ secondary stake sale have not been successful till date. In case other exit routes are not possible, there exists a buyback obligation on the company/ promoters, which can be exercised by the PE. While no exit route has yet been finalised for the PE investor, ICRA would continue to monitor the events, with any significant cash outflow from the company in this regard 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—3PL for agricultural machinery and PMPs 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 any particular geography.

Strong financial risk profile characterised by low gearing and healthy coverage indicators – UIL's financial risk profile remains healthy, characterised by a conservative capital structure and strong debt coverage indicators. Most of the debt on the company's books is in the form of working capital borrowings, with its business characterised by high working capital intensity. In spite of high working capital intensity, the debt coverage indicators remain robust with the company having an interest coverage of 14.9 times and Total Debt/OBDITA of 1.3 times in FY2021.

Credit challenges

High customer concentration risk with high 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 (~36% in FY2021; albeit declining YoY). While the high customer concentration risk exposes the company to vulnerability in demand from the OEM, the risk is mitigated to an extent by its established relationship with the customer and the multiple touch points across the globe. Additionally, UIL's efforts to diversify its customer mix has helped reduce its single customer dependence to an extent (from 45% in FY2018 to 34% in H1 FY2022); going forward, a ramp up in supplies to its other customers is likely to help reduce the concentration risk further.

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 come from export markets, with domestic supplies constituting only ~13-16% of its revenues (primarily export requirements of domestic tractor OEMs). Accordingly, UIL's prospects remain linked to global demand conditions, especially in the North American market, which constituted ~51% of the company's revenues in H1 FY2022.

Working capital intensive nature of operations mandated by global delivery model – UIL's working capital intensity remains high (~47% in FY2021), 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 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. UIL's model proved quite beneficial in the last 1-2 years, when despite its Indian facilities shutting down during the Covid-19 lockdowns, it was still able to cater to its customers abroad from its warehouses in the US and Europe.

Liquidity position: Adequate

UIL's liquidity is expected to remain **adequate**, evidenced by an undrawn working capital facility buffer of Rs. 70-90 crore as on December 31, 2021. The company is expected to incur moderate capex of around Rs. 30-40 crore in the near to medium term. UIL also has long-term debt repayment obligations of Rs. 6.7 crore in FY2022 and Rs. 5.6 crore in FY2023. Going forward, the company is expected to meet its capex requirements over the near to medium term from internal accruals and additional debt drawdown, as and when required. Any material cash outflow from the company for providing an exit option to its PE investors would be a monitorable.

Rating sensitivities

Positive factors – The company's ability to sustain the improvement in its scale of operations, margins and debt coverage indicators would be favourably considered for a rating upgrade. Additionally, its ability to facilitate an exit for its PE investors without any significant cash outflow would be favourably considered for a rating upgrade.

Negative factors – Given the positive outlook, a rating downgrade is not likely over the near term. However, the ratings may be revised downwards over the medium term, if a weakness in demand in the underlying end-user segments adversely impact the company's working capital intensity and/or profitability and/or credit metrics. Specific credit metrics that could result in a downgrade include interest coverage lower than 7.0 times on a sustained basis. Any material impact on the credit profile because of cash outflow for providing an exit option to its PE investors might exert downward pressure on the ratings.

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 UIL. As on March 31, 2021, the company had four subsidiaries and one stepdown subsidiary, which are all enlisted in Annexure-2.

About the company

Incorporated in 1994, Uniparts India Limited 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 four warehouse facilities (two in USA, one in India 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% stake in it) collectively hold ~20.7% stake in the company as on date, with the rest largely held by the promoters.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	907.2	903.1
PAT (Rs. crore)	62.8	91.2
OPBDIT/OI (%)	12.7%	13.4%
PAT/OI (%)	6.9%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.6
Total Debt/OPBDIT (times)	2.6	1.3
Interest Coverage (times)	6.4	14.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Jan 28, 2022	Nov 26, 2020	May 1, 2020	Jul 30, 2019	Apr 30, 2018
1	Proposed Term Loan	Long-term	25.0	-	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	Fund based Working Capital Facilities	Long-term and short term	165.0	-	**[ICRA]A+ (Positive)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**
3	Unallocated	Long-term	-	-	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loans	Simple
Long-term/ Short -term – Fund Based Working Capital Facilities	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Proposed Term Loan	NA	NA	NA	25.00	[ICRA]A+ (Positive)
NA	Fund-based - Working Capital Facilities	NA	NA	NA	165.00	[ICRA]A+ (Positive) /A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Uniparts India Limited	100.00% (rated entity)	Full Consolidation
Gripwel Fasteners Private Limited	100.00%	Full Consolidation
Uniparts USA Limited	100.00%	Full Consolidation
Uniparts Olsen Inc	100.00%	Full Consolidation
Uniparts Europe B.V.	100.00%	Full Consolidation
Uniparts India GmbH	100.00%	Full Consolidation

Source: *UIL Annual Report*

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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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