January 16, 2023

Uniparts India Limited: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	25.00	-	-
Long-term/ Short-term – Fund-based working capital	165.00	165.00	[ICRA]AA- /[ICRA]A1+; Upgraded from [ICRA]A+/[ICRA]A1; Outlook revised to Stable from Positive
Total	**190.00**	**165.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Uniparts India Limited (UIL or the company) considers its continued strong operating performance, and an expectation of the same sustaining, going forward, aided by the company's global service delivery model, strong engineering and product development capabilities for supplying three-point link (3PL) assemblies and precision machined parts (PMPs). The rating also factors in UIL's established relationships and share of business with some of the leading Original Equipment Manufacturers (OEMs) in agricultural machinery and construction equipment industries. The company recorded a healthy growth in revenues in FY2022 (36% over FY2021) and has continued its growth momentum into the current fiscal with revenues of ~Rs. 346.8 crore in Q1 FY2023. Aided by operating leverage benefits and various cost efficiency measures, the company has maintained improved profitability (OPM of 20.7% and 21.7% in FY2022 and Q1 FY2023, respectively). Even as the inflationary environment along with the global geopolitical situation remain monitorable, UIL is expected to see healthy growth in earnings over the medium term.

The rating upgrade also considers UIL's successful listing in December 2022. The company had initiated its Initial Public offering (IPO) process and filed its Draft Red Herring Prospectus (DRHP) in April 2022. UIL raised ~Rs. 835 crore via its IPO, which only comprised offer for sales (OFS) of ~1.5 crore equity shares by existing shareholders of the company. Its former Private Equity (PE) investors, Ashoka Investment Holdings Limited and Ambadevi Mauritius Holding Limited, who collectively held ~20.7% stake in the company, sold their entire shareholding and exited the company, thereby alleviating the risk of the buyback clause being triggered by the investors.

The company continues to maintain a strong financial risk profile, characterised by a conservative capital structure (TD/TNW of 0.2 time in FY2022) and strong debt coverage indicators (TD/OPBDIT and Interest Coverage of 0.6 time and 44.5 times, respectively, in FY2022). Aided by the strong operating performance in the current fiscal, its debt coverage indicators are expected to strengthen further and remain robust over the medium term in the absence of any substantial capital expenditure (capex) plans. Apart from a healthy presence with various OEMs, UIL is also present in the replacement market (constituted ~19% of revenues in FY2022 and Q1 FY2023).

The ratings, however, continue to remain constrained by the inherently cyclical nature of UIL's end-user industries (agri-machinery and construction equipment). Additionally, even as the company caters to multiple customers, a significant amount of its revenue emanates from a single leading global agriculture and construction equipment manufacturer (~34% in FY2022; although declining YoY), resulting in customer concentration risk. This risk is, however, mitigated to an extent by its established relationship with the customer and supplies to it across various plants and geographies. Additionally, UIL's efforts to diversify its customer mix through new additions is likely to help reduce the concentration, going forward. ICRA notes that UIL's working capital intensity remains high (~44% in FY2022), a consequence of its global delivery service model, wherein it maintains adequate inventory at facilities and warehouses across locations to serve its customers in a timely manner.

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. This would help it record healthy earnings growth over the medium term and maintain a healthy financial risk profile.

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 these 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 manufacturing facilities and warehouses across geographies. This helps it provide multiple 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. The debt coverage indicators remain robust with UIL having an interest coverage of 44.5 times and total debt/OBDITA of 0.6 time in FY2022. A continued healthy performance is likely to help in further reducing its dependence on external debt and, consequently, strengthen its debt coverage indicators further over the medium term.

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 share of revenue comes from a single agriculture and construction equipment manufacturer (~34% in FY2022; 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). Going forward, a ramp up in supplies to its other customers is likely to help reduce this concentration risk further.

Exposed to vulnerability in demand as end-user industries are inherently cyclical in nature – The company derives its revenues from the 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 ~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 ~49% of its revenues in Q1 FY2023.

Working capital intensive nature of operations mandated by global delivery model – UIL's working capital intensity remains high (~44% in FY2022), resulting in significant utilisation of funds for working capital requirements. The same is a consequence of its global delivery service model, wherein it maintains adequate inventory at 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 even during the

Covid led disruptions, it was able to cater to its customers abroad from its warehouses in the US and Europe. The intensity on inventory is to an extent offset by reduction in the accounts receivables as the company opted for early payment program of the OEMs.

ESG related comments

Environmental considerations – Even as UIL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its tractors and construction equipment manufacturing customers remain exposed to the same to an extent. Accordingly, UIL's prospects are linked to the ability of its customers to meet tightening emission requirements. The company has been taking steps to reduce its carbon footprint by enhancing its reliance on alternative sources of energy. The company also manages effective recycling of water. Its exposure to litigation/ penalties from issues related to waste and water management remains low.

Social considerations – UIL, like most automotive-component suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption free operations. UIL's annual reports indicate that it has been taking initiatives to support its vendors in upgrading their operations, skills, quality, and technology. Another social risk that UIL faces is that of product safety and quality, wherein instances of product recalls and high-warranty costs may not only lead to a financial implication but could also harm its reputation and create a more long-lasting adverse impact. In this regard, UIL's strong track record in catering to leading companies across the world underscore its ability to mitigate these risks. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

UIL's liquidity is expected to remain adequate, evidenced by an undrawn working capital facility buffer of Rs. 115 crore as on October 31, 2022. The company is expected to incur moderate capex of around Rs. 40-50 crore mainly to complete the construction of the new plant in Ludhiana, under its recently set up subsidiary, Gripwel Conag Pvt. Ltd., in addition to regular maintenance capex. UIL also has long-term debt repayment obligations of Rs. 5.7 crore in FY2023 and ~Rs. 3-4 crore in FY2024 (consolidated level). The new subsidiary has been sanctioned Rs. 20 crore of term loan in FY2023 to fund the machinery and construction of buildings for this plant (~Rs. 5 crore drawn till December 2022). 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.

Rating sensitivities

Positive factors – A sustained improvement in the business profile, through material diversification of the customer and end-user industry profile would be favourably considered for an improvement in ratings. The company's ability to record a sustained improvement in its scale of operations, while maintaining a healthy liquidity and credit profile could also lead to a rating upgrade.

Negative factors – The ratings may be revised downwards over the medium term if a weakness in demand in the underlying end-user segments adversely impacts the company's working capital intensity and/or profitability and/or credit metrics. Specific credit metrics that could result in a rating downgrade include interest coverage lower than 7.0 times on a sustained basis.

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, 2022, the company had five subsidiaries and one stepdown subsidiary, who 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) and fabrication parts (for agriculture and construction sectors). The company, along with its wholly owned subsidiaries, has six manufacturing units across India and one in USA, equipped with forging, machining, heat treatment and welding capabilities, among others. Additionally, the company has three warehouse facilities (two in USA, and one in Germany) for its overseas customers.

Earlier, its PE investors, Ashoka Investment Holdings Limited (15.9%) and Ambadevi Mauritius Holding Limited (4.8%), collectively held ~20.7% stake in the company. Pursuant to the completion of its OFS for shares under its IPO, the investors sold their entire shareholding and exited the company.

Key financial indicators (audited)

UIL Consolidated	FY2021	FY2022	Q1 FY2023
Operating income	903.1	1,227.4	346.8
PAT	91.2	168.8	50.5
OPBDIT/OI	13.4%	20.7%	21.7%
PAT/OI	10.1%	13.8%	14.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	-
Total debt/OPBDIT (times)	1.3	0.6	-
Interest coverage (times)	14.9	44.5	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for Q1 FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jan 16, 2023	Jan 28, 2022	Nov 26, 2020	May 1, 2020	Jul 30, 2019
1	**Term loans**	Long term	-	-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Fund-based bank facilities**	Long term and short term	165.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
3	**Unallocated**	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based working capital	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 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
NA	**Fund-based - Working Capital Facilities**	NA	NA	NA	165.00	[ICRA]AA- (Stable) /[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

UIL	LTHL Ownership	Consolidation Approach
Uniparts India Limited	100.00% (rated entity)	Full Consolidation
Gripwel Conag Private Limited	100.00%	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 FY2022; *= The Company had filed an application for voluntary liquidation of this subsidiary in December 2021 and it has been liquidated in October 2022 as informed by the company's management*

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About ICRA Limited:

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