UCAL LIMITED
(Formerly UCAL FUEL SYSTEMS LIMITED)

25.06.2024

National Stock Exchange of India Ltd Exchange Plaza, 5" Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra(E), Mumbai — 400 051 Stock Code : UCAL	BSE Limited Corporate Relationship Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 Stock Code: 500464

Dear Sir,

Sub: Intimation of Revision in Credit Rating under Regulation 30 of the SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015.

With reference to our earlier intimation made on 24th June 2024 on rating downgrade by Crisil Rating Limited on Banking facilities, as required under Regulation 30 of the SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015 as amended, we herewith attach the reason by the rating agency for downgrade revision from CRISL BBB / Stable to CRISIL BBB- / Stable.

Request you to kindly take the above information on record.

Thanking you

Yours faithfully
For **UCAL LIMITED**

S.Narayan
Company Secretary

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CIN: L31900TN1985PLC012343

CRISIL Ratings

Rating Rationale

June 24, 2024 | Mumbai

Ucal Limited

Rating downgraded to 'CRISIL BBB-/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.35 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Downgraded from 'CRISIL BBB/Stable')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its rating on the long term bank facilities of Ucal Limited (Ucal; Formerly known as Ucal Fuel Systems Limited) to **'CRISIL BBB-/Stable'** from 'CRISIL BBB/Stable'.

The rating action factors continued moderation in Ucal's business performance majorly due to reduction in offtake of key product viz. e-carburetor (constitutes ~30% of standalone revenue in fiscal 2024) by Bajaj Auto Ltd (Bajaj Auto, rated 'CRISIL AAA/Stable/CRISIL A1+') for the domestic market. This has resulted in less than anticipated cash generation in fiscal 2024. Also, while the company was able to avail factoring/short term limits from NBFCs/financial institutions, it is yet to tie up material cash credit and other working capital facilities from banks. The company is also stretching its creditors, which along with high annual debt servicing obligations is impacting its current ratio.

Ucal is intending to reduce its reliance on carburetors and increase share of non-carburetor products by utilising the existing capacity. This, if successful will help improve overall capacity utilisation and result in better absorption of fixed costs. Accordingly, operating margins on a consolidated basis are estimated to recover to ~7-7.5%% over the near to medium term, also improving cash generation. The same will be a key monitorable..

The company has material long term repayment obligations of Rs.34 crore in fiscal 2025 and ~Rs.28 crore in fiscal 2026, and will also be undertaking moderate capex spend in these years. Cash flow from operations alone may not suffice to meet capex needs and term debt obligations, necessitating additional funding. The company's promoters are arranging to provide short term loans of Rs.10 crore by mid July 2024, while the buyer of the company's Gurgaon property is also expected to make balance payment of ~Rs.19 crore in the next 2-3 months (advance of Rs.5 crore of total of Rs.24 crore already paid). Additionally, the company has obtained a sanction from one of its bankers to raise Rs.18 crore for capex purposes, and is in discussion to raise additional funds, including loan against property (LAP). The promoters are also expected to extend guarantees to facilitate the tie-up the working capital tie up from banks. Until material working capital funding limits with banks are established, Ucal will remain dependent on successful complete monetisation of its land parcel in Gurgaon, and arranging for LAPs to obviate liquidity pressures. The same will remain a key monitorable.

Ucal's revenue declined by 12% in fiscal 2024 primarily on account of lower offtake of e-carburetors on account of key client, Bajaj Auto which is gradually switching to fuel injection equipment (FIE) from e-carburetors as per the extant regulations. This along with subdued exports of two wheelers (BS-III/IV), owing to subdued macroeconomic environment in key export markets impacted offtake of carburetors. While e-carburettor volume expected to drop by 50-60% during fiscal 2025, and a complete phase out likely from April 1, 2025, step up in contribution from non-carburetor products will be critical to offset further material revenue decline in the near to medium term. Although, Ucal has already developed the Fuel injection (FI) system prototype, it is yet to obtain approval for offtake commitment from Bajaj Auto, which is expected by the fourth quarter of fiscal 2025. Acceptance of the FI equipment (FIE) and ramp up of non-carburetor product volume, is expected to aid recovery in revenues over the medium term.

Ucal's operating profitability declined on-year by 190 basis points (bps) to 5.1% in fiscal 2024 from 7% in fiscal 2023 primarily due to one-time non-cash inventory related provisions of Rs.15 crore made by Ucal Inc Holdings (US Subsidiary of Ucal) during fourth quarter of fiscal 2024 coupled with overall reduction in e-carburetors volumes.

Ucal's financial profile moderated in fiscal 2024 majorly on account of lower cash generation due to decline in profitability with lower offtake of e-carburetors. Gearing further moderated to 0.68 time as on March 31, 2024 from 0.60 time a year earlier. Also. debt metrics like interest coverage and net cash accruals to total debt declined from 3.0 times and 0.16 times in fiscal 2023 to 2.00 times and 0.10 times respectively in fiscal 2024. Over the medium term, gearing is expected to remain comfortable at 0.5-0.6 times and other debt metrics too will witness gradual improvement owing to steady profitability, and repayment of term loan obligations.

CRISIL also notes that, the company had exercised the option under section 115 BAA of Income Tax Act, to avail a comparatively lower tax rate of 22% resulting in one time non cash tax charge of Rs.23 crore for fiscal 2024 on account of MAT credit write off and DTA reversals.

The rating continues to reflect the company's established presence in the carburetor business, with long-standing relationship with major two-wheeler and four-wheeler automotive original equipment manufacturers (OEMs), established engineering capabilities and integrated manufacturing facilities. These strengths are offset by high product and customer concentration, volatile operating profitability, sub-par performance of US subsidiary, and moderate financial risk profile and liquidity.

Analytical Approach

CRISIL Ratings has adopted a consolidated view of two wholly owned subsidiaries Ucal Polymer Industries Ltd (UPIL) and Ucal Holdings Inc. for the purpose of analysing the financial profile of Ucal as they are wholly owned, in the same line of business and there exists complete fungibility of funds between the parent and its subsidiaries. It may be noted that UPIL has a subsidiary UPIL USA Inc and Ucal Holdings Inc has two subsidiaries Ucal Systems Inc and AMTEC Moulded Products Inc, USA, which have already been consolidated at UPIL and Ucal Holdings Inc, respectively. Further bill discounting facility availed by the company(with recourse) through TREDs platform and unsecured loans from promoters has been considered as debt.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established presence in the auto component business with long-standing relationship with customers:** The company has long-standing presence with coveted customers such as BAL and TVS Motor Co Ltd (TVSM) and remains the sole supplier to some of their vehicle models. The company also has established relations with Maruti Suzuki Ltd (Maruti Suzuki; rated 'CRISIL AAA/Stable/CRISIL A1+') for some of the products in FIE, such as fuel pumps, oil pumps, delivery pipe assembly and throttle body assembly. While carburetors continue to be the largest contributor to revenue, they are being increasingly replaced by FIE over the years. However, carburetors still have a market in the affordable <125 cc bike segment majorly in Africa, Sri Lanka, Bangladesh and Nepal, which still operates with lower BS standards such as BS-II and BS-IV. Ucal manufactures both BS VI compliant electronic carburetor (domestic market) as well as the traditional mechanical carburetor (export market). Further, once the company obtains the offtake agreement from Bajaj Auto for fuel injection pumps, it also plans to start supplying the same to other OEMs such as TVSM, Hero MotoCorp (rated 'CRISIL AAA/Stable/CRISIL A1+'), with whom it has long-standing relationships thereby ensuring revenue visibility over the medium term.

- **Experienced promoter, integrated facilities and established engineering capabilities:** Ucal was established in 1985 by Carburetors Ltd, pioneers in India in manufacturing carburetors and mechanical fuel pumps. In 1987, Ucal entered into a joint venture with Mikuni Corporation of Japan (Mikuni Corporation), an internationally renowned company for fuel management system and products. In 2008, Carburetors Ltd, the Indian promoter of Ucal, acquired the equity stake held by co-promoter, Mikuni Corporation. However, Ucal has absorbed extensive technical know-how provided by Mikuni Corporation. Mr Jayakar Krishnamurthy (Chairman, Managing Director), an MBA in Finance from Duke University, USA, manages the operations. He is assisted by professionals in key roles. The promoter, by virtue of his vast experience, has been able to help Ucal forge relationships with leading OEMs, and has set up integrated manufacturing facilities, offering a host of products, reflecting established engineering capabilities. Besides, several new products are also under development, with FIE systems also in test phase. These new products are expected to support revenue growth over the medium term, as carburetors for two wheelers with engine capacity <125 cc get phased out.

Weaknesses:

- **High product and customer concentration:** Ucal has high product and client concentration with over 30% of standalone revenue from e-carburetor sales to BAL, which is also its single largest customer. Despite addition of non-carburetor products over the years such as air suction valve, oil pumps, vacuum pump, fuel pumps, fuel filter, throttle body assembly, and delivery pipe assembly, concentration of a single product (carburetors) and few customers remained high over 70% in fiscal 2024. This client concentration risk is expected to impact revenues for Ucal in the near term, with BAL gradually migrating from existing e-carburetor to FIE in less than 125 cc vehicles as mandated by extant regulations and the product will be phased out completely from April 1, 2025. However, the company has been consciously reducing the overall reliance on carburetor products by steadily increasing the share of non-carburetor products (as a percentage of standalone revenue), which has increased from 17% in fiscal 2022 to 27% in fiscal 2024 and expects to increase the share to 40-45% over the medium term. Also share of revenue from BAL has reduced from ~70% in fiscal 2022 to 56% in fiscal 2024.

- **Volatile operating profitability:** Ucal's operating profitability has fluctuated between 11-15% over fiscals 2015-2020 and dipping to 7-9% in fiscals 2022 and 2023. Operating margin further reduced to ~5% in fiscal 2024 from 7% in fiscal 2023. Impact was felt the most in the last quarter of fiscal 2024, when operating profitability dipped to 1.4% largely due to inventory related provisions of Rs 15 crore made by Ucal Inc Holdings (US Subsidiary of Ucal), which constrained the full year margin to 5% at a consolidated level. However, with the company reducing the reliance on carburetors and with increase in share of revenue from non-carburetor products by utilising existing capacity, overall capacity utilisation is expected to improve thereby resulting in better absorption of fixed costs. Accordingly operating margins on a consolidated basis are estimated to recover to 6-7% over the medium term with ramp up in business. This will still remain lower than double digit margins seen in the past.

- **Moderate financial risk profile, including due to modest performance of US Subsidiary, and stretched liquidity:** Ucal's financial risk profile has moderated in fiscal 2024, with lower operating profitability impacting debt metrics. Accordingly, debt metrics such as interest coverage and NCA/AD declined to 2.0 times and 0.10 time in fiscal 2024, from 3.01 times and 0.16 time in fiscal 2023, respectively.

  Although gearing levels have moderated from 0.60 times at March 31, 2023, to 0.68 times at March 31, 2024, it is still comfortable and expected to remain so over the medium term, in the absence of sizeable capex, and with progressive debt repayment. Also, the company plans to prepay term loan instalments of Rs 15 crore pertaining to Bajaj Finance Ltd from the proceeds of land monetisation in Gurgaon amounting to Rs 24 crore for which the company has already received an advance of Rs 5 crore, expects ~Rs. 4 crore in July 2024, and the balance Rs.15 crore in August 2024 (post-dated cheque to this extent has been provided by the buyer).

  The performance of US subsidiary viz. Ucal Holdings Inc has also remained modest. While Ucal Holdings Inc had achieved a revenue of Rs 240 crore (Rs 234 crore in previous year), it reported net loss of Rs 28 crore (Rs 9 crore) majorly due to increase in interest costs following higher interest rate environment in the US.

  Ucal is undertaking a capital expenditure (capex) of Rs 25 crore in fiscal 2025 mainly for non-carburetor products, With operating profitability improving slightly to ~7-7.5%, the company is funding the capex with high cost borrowings from non-banking financial companies (ranging from ~11-12%) and a term loan from banker (sanctioned received), which will result in only moderate improvement in debt metrics in fiscal 2025, despite progressive debt repayment. The interest cover ratio is expected to improve to 2.7 times and NCA/AD to 0.2 time in fiscal 2025.

  Working capital availability is stretched due to reduction in working capital limits from its erstwhile lead banker in February 2023. The promoters are expected to infuse a total of Rs.10 crore by way of inter-corporate loans by July 15, 2024 and also expected to extend guarantees to facilitate working capital tie up from banks which is critical to obviate medium term liquidity pressures. Also, unless the company arranges for additional working capital limits, liquidity pressures are likely to exacerbate, in the event of lower-than-expected profitability, or delay in monetization of Gurgaon land, or timely availment of loans against property.

Liquidity: Adequate

Liquidity is adequate with estimated cash accruals of Rs ~46 crore in fiscal 2025, including profits from monetization of land, and Rs 42 crore in fiscal 2026 sufficient to meet term debt obligations of Rs ~34 crore and Rs 28 crore, respectively. The company also had liquid surplus of Rs 7 crore as on March 31, 2024. Ucal is also expected to under capex of Rs.20-25 crore on annual basis. Accordingly, the company has already obtained sanction of Rs.18 crore of capex reimbursement term loans from Bank of Maharashtra in June 2024, and will shortly draw down the funds.

In the event of delay in land monetization, liquidity pressures can exacerbate. Ucal currently does not have any working capital Cash Credit (CC)/Working Capital Demand Loan (WCDL) limits and overall liquidity position of the company is supported by non-convertible debentures (NCDs) raised from Northern Arc Capital, where Rs 20 crore has been earmarked for working capital and is revolving in nature. Further, promoter is expected to extend necessary guarantees to facilitate tie-up of working capital facilities from banks which is critical to obviate medium term liquidity pressures. Group company, Minica Real estates has infused funds of Rs 13 crore during fiscal 2024. The promoters are also expected to infuse a total of Rs.10 crore by way of inter-corporate loans by July 15, 2024, to support liquidity.

The company also has factoring limits of Rs 18 crore and Rs 10 crore from SBI Global Factors and Bajaj Finance Ltd, respectively, where SBI Global is proposing to enhance the limits further to Rs 45 crore. Ucal has also obtained fresh sanction of factoring limits of Rs.20 crore from Axis Bank during May 2024. Ucal also avails bill discounting limits of Rs 38 crore through TReDS platform at 9.0-9.25% with higher credit period of 150-180 days from various banks.

Company has prepaid all the bank facilities from Kotak Mahindra Bank (KMB), using funds raised through NCDs of Rs 50 crore from Northern Arc Capital, advance of Rs. 21 crore returned by a group company and stretching the creditors. Subsequent to closure of bank facilities with KMB, collateral worth Rs 200 crore are expected to be released, and Ucal proposes to avail LAP of Rs.25-30 crore with longer tenure (7 years) with lower interest rates, as well as a general purpose term loan of Rs 50 crore with longer tenure of 8 years as LAP from Indian Bank. The loan proceeds will be utilized to square off the high cost term loans and elongate the tenor of existing long term debt. These initiatives, if successful, along with tie-up of additional working capital facilities, can help obviate liquidity pressures, and will remain a monitorable.

Outlook: Stable

CRISIL Ratings believes commencement of supplies of fuel injection pumps to Ucal's largest and key customer will be critical to stem continuing fall in revenues, and help buttress the impact of loss of business from a key existing product, due to regulations. Operating profitability is expected to stabilise at 7-8%, supported by better performance of US subsidiary as well, and along with monetisation of non-core assets, support cash generation. The company's financial risk profile will remain moderate over the medium term. Improvement in liquidity position will be contingent on the company's ability to extent maturity of long term loans, and monetise non-core assets as scheduled, as well as arrange for additional working capital facilities.

Rating Sensitivity factors

Upward Factors:

- Better than anticipated revenue generation, including through customer and product diversity, and operating profitability sustaining at 8%, benefitting cash generation
- Improvement in financial risk profile, supported by better cash generation and prudent management of working capital
- Improvement in liquidity position, including through higher working capital limits being sanctioned, extension of tenure of long term debt, and timely monetisation of non-core assets

Downward Factors:

- Continuing pressure on revenues due to loss of share in business from key customers and delay in ramp up of fuel injection business
- Operating profitability sustaining at below 5% impacting cash generation
- Moderation in key debt protection metrics due to lower profitability, and higher than expected debt levels, due to capex/acquisitions or elongation of working capital
- Pressure on liquidity, due to inability to/or delay in obtaining material additional working capital limits and monetizing non-core assets, as well as extending tenure of long term debt.

About the Company

Ucal was incorporated in 1985 by Mr M Muthukrishnan to manufacture carburetors and fuel pumps for Maruti Suzuki. Ucal has since enhanced its product portfolio to include fuel-injection components, air-suction valves, and machined-die castings, among other products. It has facilities in Maraimalainagar (Tamil Nadu), and Gurugram. It has two wholly-owned subsidiaries—the US-based Ucal Holding Inc and UPL, which manufactures specialised rubber and plastics components exclusively for Ucal. The company is currently in the process of developing the fuel injection engines for <125 cc vehicles and has already submitted prototypes to Bajaj Auto; supplies of the same are expected by fourth quarter of fiscal 2025.

Key Financial Indicators

As on / for the period ended March 31	Unit	2024	2023
Operating income	Rs crore	723	823
Reported profit after tax (PAT)	Rs crore	-25	1
PAT margin	%	-3.5	0.1
Adjusted debt/Adjusted networth	Times	0.58	0.54
Interest coverage	Times	2.00	3.01

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Working capital term loan*	NA	NA	Jul-2024	5.15	NA	CRISIL BBB-/Stable
NA	Proposed Term loan	NA	NA	NA	29.85	NA	CRISIL BBB-/Stable

**Guarantee Emergency Credit Loan*

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Ucal Polymer Industries Ltd	Full	Subsidiaries are in same line of business and there exists complete fungibility of funds
UPIL USA Inc	Full	Stepdown subsidiary in same line of business and there exists complete fungibility of funds
Ucal Holdings Inc	Full	Subsidiaries are in same line of business and there exists complete fungibility of funds
Ucal Systems Inc	Full	Stepdown subsidiary in same line of business and there exists complete fungibility of funds
AMTEC Moulded products Inc,USA	Full	Stepdown subsidiary in same line of business and there exists complete fungibility of funds

Annexure - Rating History for last 3 Years

		Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	35.0	CRISIL BBB-/Stable		--	02-08-23	CRISIL BBB/Stable		--	08-11-21	CRISIL BBB+/Stable	--
			--		--	27-01-23	CRISIL BBB+/Stable		--		--	--
Commercial Paper	ST		--		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Term Loan	**29.85**	**Not Applicable**	**CRISIL BBB-/Stable**
Working Capital Term Loan&	**5.15**	**Bajaj Finance Limited**	**CRISIL BBB-/Stable**

& - Guarantee Emergency Credit Loan

Criteria Details

Links to related criteria

CRISILs Bank Loan Ratings - process, scale and default recognition

Rating criteria for manufaturing and service sector companies

CRISILs Approach to Financial Ratios

Rating Criteria for Auto Component Suppliers

CRISILs Criteria for Consolidation

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