

Press Release

United Industries Automotive Plastic Private Limited

March 19, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.33.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 33.00 Cr bank facilities of United Industries Automotive Plastic Private Limited (UIAPPL or the Company). The outlook is '**Stable**'.

The rating is reaffirmed taking cognizance of company's steady operational performance and moderate business risk profile supported by its established market position, diversified product profile, extensive experience of the promoters spanning over two decades years in the auto ancillary industry. Albeit, the ratings are constrained by UIAPPL's high working capital intensive nature of its operations, highly fragmented and competitive nature of auto ancillary industry and geographical and customer concentration risks.

Incorporated in 2019, United Industries Automotive Plastic Private Limited (UIAPPL) is an auto component supplier headquartered in Kancheepuram, Tamilnadu. UIAPPL is engaged in manufacturing of various injection-molded plastic components and its manufacturing facility is located at Anantapur, Andhra Pradesh. United Industries Plastic Private limited (UIPPL) is a holding company of UIAPPL and holds 54 percent shareholding. UIPPL is also an auto component supplier incorporated in 1986 based at Chennai Tamilnadu. UIAPPL and UIPPL are promoted by Mr. Mahalingam Karthik Krishnan and Mr. Mahalingam Keerthi Rajagopal.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of UIAPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive experience of the promoter and established customer relationships

UIAPPL is promoted by Mr. M Karthik Krishnan (Managing Director), who has nearly two decades of experience in auto ancillary industry through his association with its group company United Industries Plastic Private Limited (UIPPL), which is in the same line of business since 1986. The promoters are supported by a team of experienced management personnel. UIAPPL has strong in-house engineering and tool design capabilities to manufacture various varieties of injection-molded plastic components. UIAPPL is an established as a prominent supplier of automobile parts to Seoyon E-Hwa Summit Automotive Anantapur private Limited, Hyundai Transys India Private Limited among others. Acuité believes that with vast product portfolio, reputed clientele, experienced management, established operational track record will benefit the company going forward resulting in steady growth in the scale of operations.

• Modest scale and early ramp up of its operations

UIAPPL commenced its operations from September 2019 and for 6 months - company has reported revenue of Rs.64.92 Cr in FY2020. In the current year (FY21) for 10M, it reported revenue of Rs. 75 Cr and expected to be reach about Rs.90 Cr by March end 2021. The increase in revenue from operations was majorly on account of increase in production capacities of the company. Seoyon Anantapur is the sole supplier of certain interior and exterior plastic components (bumpers, door trims, etc.) to Kia Motors, ensuring stable order flows and providing a healthy revenue visibility over the long term, given Kia Motors' sales growth trajectory.

Weaknesses

- **Moderate financial risk profile**

UIAPPL's financial risk profile is moderate marked by moderate net worth, high gearing (debt-to equity), and high total outside liabilities to total net worth (TOLTNW) and comfortable debt protection metrics. UIAPPL's net worth is moderate at Rs. 14.78 Cr as on March 31, 2020. Gearing is high at 3.21 times as on March 31, 2020. TOL/TNW is high at 5.04 times as on March 31, 2020. Its debt protection metrics are comfortable marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 3.43 times and 0.05 times in FY2020. UIAPPL's generated cash accruals of Rs.2.54 in FY20, while it's maturing debt obligation of Rs.0.33 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-9 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.7-8.50 Cr during the same period. Acuité believes that with moderate accruals and no significant capex plans, the financial risk profile is expected to moderate over the medium term.

- **Working capital intensive nature of Operations**

UIAPPL's operations remained working capital intensive with Gross Current Assets (GCA) of 201 days as on March 31, 2020 due to moderate inventory management and high receivables. UIAPPL's working capital cycle is intensive with high gross current assets (GCA) days in the range of 201 days year ending March 31, 2020. UIAPPL's had inventory days of 20 days and debtor days of 118 days year ending March 31, 2020. UIAPPL's pays the raw material creditors within 118 days years ending March 31, 2020. To support the working capital, the company stretches the creditors to an extent of about 118 days which led to a weak current ratio of below 0.94 times March 31, 2020. Its bank limits are utilised high about 89 percent during past 6 months through January 2021. Acuité believes that the operations of the UIAPPL's will remain working capital intensive over the medium term.

- **Highly fragmented and competitive nature of the industry**

The auto component industry is highly competitive due to competition from organised and unorganised players. The growth of auto component manufacturer will continue to be driven by volume growth of its key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition have limited scope for volume growth; further, it exerts pressure on the profitability also. UIAPPL's has been in operations about a decade; its scale of operations remained modest with operating income of Rs.65 Cr in FY2020. Profitability remains susceptible to pricing pressures from OEMs and volatility in raw material cost. The operating margin is 6.48 per cent in FY2020. Operating margins are expected to be Volatile owing to fluctuations in raw material prices, limited bargaining power and flexibility to pass on the prices to the customers.

Liquidity Position: Stretched

Liquidity of UIAPPL's is Stretched marked by moderate cash accruals to its repayment obligations and albeit constrained by working capital intensive nature. UIAPPL's generated cash accruals of Rs.2.54 in FY20, while its maturing debt obligation was Rs.0.33 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-9 Cr during 2021-23, while their repayment obligations are estimated to be around Rs.7-8 Cr during the same period. UIAPPL's operations are high working capital intensive as marked by Gross Current Asset (GCA) days in the range of 201 days ending March 31, 2020. Its working capital credit limits were highly utilised at about 89 per cent during the last 6 months period ended January 2021. The current ratio stood weak below 0.94 times as on March 31, 2020. Acuité believes that though cash accruals are stretched, howbeit; managing the working capital intensive operations will remain a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Stretch in receivable cycle leading to deterioration its financial risk profile and liquidity
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Outlook: Stable

Acuité believes that UIAPPL will continue to benefit over the medium term due to its experienced management, established market position, established relations with its customers and suppliers. The outlook may be revised to 'Positive' if company reports high-than-expected revenue and profitability, with improvement in working capital cycle and strengthen its financial risk profile. The outlook may be revised to 'Negative' if decline in profitability, stretch in working capital cycle, or any large, debt-funded capital expenditure weakens capital structure or any significant investments in group entities leads to further stretch in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	64.92	-
PAT	Rs. Cr.	1.18	-
PAT Margin	(%)	1.82	-
Total Debt/Tangible Net Worth	Times	3.21	1,165.10
PBDIT/Interest	Times	3.43	-

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Material covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-March-2020	Cash Credit	Long Term	4.50	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	23.93	ACUITE BB / Stable (Assigned)
	Proposed Bank Facility	Long Term	4.57	ACUITE BB / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB/Stable (Reaffirmed)
Term loans	26-09-2019	Not Applicable	31-10-2026	23.93	ACUITE BB/Stable (Reaffirmed)
Working Capital Term Loan	Not Available	Not Applicable	Not Available	4.35	ACUITE BB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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