

No. CARE/DRO/RR/2020-21/1882

Mr. Navin Juneja
Chief Financial Officer
Talbro's Automotives Components Limited
14/1, Mathura road, Faridabad
Faridabad, Haryana-121003

April 08, 2021

Dear Sir,

Credit rating of Talbro's Automotive Components Limited for Rs.172.43 cr.

Please refer to our letter dated March 26, 2021 on the above subject.

2. The rationale for the rating(s) is attached as an **Annexure-I**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 09, 2021, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



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Encl.: As above

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Talbro Automotive Components Limited

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	137.43 (Reduced from 140.18)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	35.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	172.43 (Rs. One Hundred Seventy- Two Crore and Forty-Three Lakhs Only)		
Fixed Deposit	1.48 (Reduced from 10.00)	CARE A- (FD); Stable [Single A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium Term Instruments	1.48 (Rs. One Crore and Forty-Eight Lakhs Only)		

Details of instrument / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TACL continue to derive strength from the company's experienced promoters, its strong partnerships with globally reputed clients, its diversified customer base across varied segments, its long track record of operations with a strong distribution network, and its comfortable capital structure. The ratings have factored in both the moderation in the total operating income and profitability margins during FY20 and the recovery in business in 9MFY21 subsequent to the Covid-19 slump, on the back of a quick resumption in automotive sales. The ratings, however, remain constrained by the company's working capital intensive nature of operations, its high proportion of fixed costs, its susceptibility to foreign currency fluctuations along with the cyclical nature of the automotive industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in TOI by more than 20% while the PBILDT margin exceeds over 15% on sustained basis
- Overall gearing of less than 0.5x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 10%
- Overall gearing of more than 1x

Detailed description of the key rating drivers

Key Rating Strengths

Six decades' experience in automotive component industry

TACL, established in 1956, is the flagship company of the Talbro group. The chairman, Mr. Naresh Talwar, is a graduate from Delhi University, having 45 years of experience in leading the Talbro group. the automotive components industry. Mr. Naresh Talwar set up QH Talbro Limited in 1986 for manufacturing of suspension, tie-rods, and ball joints. He is ably supported by Mr. Umesh Talwar, an MBA from XLRI, Jamshedpur, having 38 years of experience in the Automotive Components. Mr. Umesh Talwar is also a promoter director of QH Talbro Limited and Nippon Leakless Talbro Private Limited. Moreover, the management team comprises of industry professionals having significant experience in the related domain of business operations.

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Strong partnerships with globally reputed companies

TACL has established relationships with globally reputed companies including Nippon Leakless Corporation (Japan), Fiat Group (Italy) and Marugo Rubber Industries (Japan). Magneti Marelli is a subsidiary of Fiat Group since 1967 with presence across the globe, and supplying chassis systems, front axles and rear axles to all leading car makers in Europe, North and South America and Asia. Marugo Rubber Industries has global operations and supplies anti-vibration products (engine mounts, suspension bushes and muffler hangers). Nippon Leakless Corporation is one of the largest players in manufacturing of gaskets in Japan. The Talbros group, through its time-tested association with such international acclaimed partners, has developed strong innovative technologies, resulting in 250 products launched each year.

Reputed and diversified customer base along with sales from varied segments

The Talbros group is one of the leading players in automotive gasket market with more than 50% market share in India. The group caters to leading OEMs in its customers including Bajaj Auto Limited, Tata Cummins Limited, Hero Motorcorp Limited, Tata Motors Limited, etc. The customer base is diversified with no single customer contributing more than 16% of net sales in FY20 and top three customers – Bajaj Auto Limited, Tata Cummins Limited, Hero MotoCorp Limited – contributing to around 28% of the net sales in FY20 (PY: 27%). Besides, the group caters to companies like Kawasaki, Ashok Leyland Limited, Honda Siel Power Products Limited, Simpsons group and Kirloskar group. The group has a long-standing relation with all major original equipment manufacturers (OEMs) in India, mainly on account of its design/engineering capabilities, state-of-the-art manufacturing units and robust quality control standards.

Long track record of operation with Strong distribution network

The group has a long track record of operations in auto-ancillary business since 1956 and has established its market position in manufacturing automotive gaskets where entry barrier is very high as gaskets form a crucial part of an engine. It supplies to engine and vehicle manufacturers in India, including trucks, buses, light-utility vehicles, passenger cars, tractors, two wheelers, and industrial and stationery diesel engines. Also, the company has strong distribution and aftermarket presence with a distribution network of over 8500 dealers as on March 31, 2020, providing it seamless penetration in micro markets across India.

Satisfactory financial risk profile

The total operating income of the company reported a y-o-y decline of 20% to Rs.398.11 crore (PY: Rs.498.84 crore) on account of the decline in the sales volume due to the unfavourable macroeconomic scenario for the Indian automobile industry followed by the Covid-19 led impact felt during the last quarter of FY20. The PBILDT margin of the company moderated by 82 bps and stood at 12.85% during FY20 (PY: 13.36%) due to decline in capacity utilization which resulted in increase in cost due to high proportion of fixed cost which deprived it of its scale benefits. Furthermore, the PAT margin also moderated by 206 bps and stood at 7.58% during FY20 (PY: 9.65%) due to the increase in the depreciation and interest expenses.

The capital structure of the company stood comfortable with an overall gearing of below 1x from the past three fiscals ending March 31, 2020. The overall gearing for FY20 stood stable at 0.78x as on March 31, 2020 (PY: 0.78x).

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Interim Results: The company's TOI remained stable at Rs.292.76 crore during 9MFY21, as against Rs.298.56 crore in 9MFY20, as the company was able to recover the shortfall of sales in Q1FY21 during the festive season in ensuring months. The performance of the company has shown q-o-q improvement, with the company recording a turnover of Rs. 132.06 crore during Q3FY21, thereby witnessing y-o-y growth of around 36% from Q3FY20 (TOI: Rs. 97.40 crore) and q-o-q growth of around 20% from Q2FY21 (TOI: Rs.110.22 crore).

The PBILDT margin of the company improved and stood at 13.66% during 9MFY21 (PY: 11.47%) notwithstanding the prevailing pandemic, on account of various cost optimization measures undertaken by the company, besides a greater focus on exports. The PAT margin remained stable and stood at 4% during 9MFY21 (PY: 3.99%). Further, it achieved PBILDT margin of 16% during Q3FY21 as compared to 12.01% recorded by the company during Q3FY20.

Key Rating Weaknesses

Working capital intensive nature of operations

Since TACL is in the auto ancillary industry, its operations are working capital intensive in nature. The group needs to maintain inventory of around 3-4 months as it manufactures 3,500 varieties of gaskets requiring 40 types of raw materials. Around 30% of these raw materials are imported from Germany, US and Japan, such imports demanding 1-2 months' lead time. Furthermore, the company maintains significant finished products' inventory considering demand from the aftermarkets. The average inventory days stood at 120 days in FY20 (PY: 97 days).

The company allows a credit period of 100 to 130 days to domestic as well as overseas customers. Around 40% of the raw material is imported, the company getting credit period of up to 120 days from the suppliers of tinplate, steel, jointing products and other raw material suppliers. Overall, this leads to a working capital cycle of around 2-3 months, which further leads to high reliance on the fund-based facilities to meet the working capital requirements. The average cash credit utilization remains at around 80%.

Foreign currency fluctuation and raw material risk

The group is exposed to foreign currency risk for its export business. The risk is, however, mitigated to an extent as the company has natural hedge as against the import of around 30% of raw material, the company is exporting around 50%. Furthermore, the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex movement.

Besides, the company's cost of raw materials – primarily iron and steel – accounts for around 50%-60% of total operating income. Global prices for iron and steel are volatile thereby exposing the group to price risk. The group has decided on partial strategic disinvestment of its non-core materials business assets. The same is being sold to the Indian affiliate of M/s. Interface Performance Materials, USA. Besides, Talbros has entered into a raw material sourcing agreement with them. Under this agreement, Talbros shall source various gaskets raw materials from Interface's Indian manufacturing unit. The local raw material sourcing commenced in FY19.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large

number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

Industry Prospects

The Indian automotive sector saw a modest start to the new year 2021 as sales figures for January present a mixed bag. While the factory dispatches clocked growth during the month, sales by dealers to consumers declined for most categories on a YoY basis. Analysis on a sequential basis indicates wholesales were better off this month for all categories and the same held true for retail sales, except in case of two wheelers and tractors. Domestic wholesales of two-wheelers during 10M-FY21 shows the industry volumes have reached 80% of 10M-FY20 levels.

After the initial two months of FY21, which witnessed near nil level of sales due to lockdowns, the automotive sector has rebounded quickly. On a sequential basis, all segments have shown impressive growth and are inching closer to previous year's levels, except for three wheelers, which is expected to take another 6-7 months for a full demand recovery.

Liquidity: Strong

Liquidity is marked by strong accruals against negligible repayment obligations. With a gearing of 0.78x as on March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The current ratio stood at 1.03x as on March 31, 2019 (PY: 1.03x).

Analytical approach: Consolidated; ; The consolidated business and financial risk profiles of TACL and its joint ventures (JV) namely Nippon Leakless Talbros Pvt Ltd (*NLTPL, 40:60, Gaskets*), Magneti Marelli Talbros Chassis Systems Pvt. Ltd (*(MMTCPL, 50:50 and Chassis components like Control arm, steering knuckle, front cross member, rear twist beam axle etc.)*) and Talbros Marugo Rubber Pvt. Ltd. (*TMRPL, 50:50 and anti-vibration product and hosses*) have been considered as these companies (together referred as 'Talbro Group') have common management and operational linkages. The group is in same line of business and all the products are marketed under the same brand name "Talbro".

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'

CARE's Policy on Default Recognition

Rating Methodology-Manufacturing Companies

Criteria for Short-term Instruments

CARE's methodology for auto ancillary companies

CARE's methodology for financial ratios (Non-Financial Sector)

Criteria on Factoring Linkages in Ratings

Rating Methodology-Consolidation

About the Company

Talbro Automotive Components Ltd. (TACL), the flagship manufacturing company of the Talbro Group was established in the year 1956 to manufacture automotive and industrial gaskets. The company was promoted by Mr. Naresh Talwar (Non- Executive Chairman) who has an experience of more than 45 years in Automotive

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Components Industry. Other entities belonging to the group are Nippon Leakless Talbros Private Ltd (NLTPL) (40: 60 JV with Nippon Leakless Corp, Japan), Magneti Marelli Talbros Chassis Systems Private Ltd (MMTCPL) (50: 50 JV with Fiat Group), Talbros Marugo Rubber Private Ltd. (TMRPL) (50: 50 JV with Marugo Rubber, Japan).

Financial Performance – Name of Entity (Consolidated)

(Rs. Crore)

For the period ended / as at March 31,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
<u>Working Results</u>			
Net Sales	378.78	459.57	366.99
Total Operating income	405.99	498.84	398.11
PBILDT	52.88	66.65	49.94
Interest	13.94	15.53	16.10
Depreciation	14.54	18.53	19.76
PBT	25.90	33.25	14.87
PAT (after deferred tax)	22.90	26.38	12.20
Gross Cash Accruals	38.49	44.15	32.12
<u>Financial Position</u>			
Equity Capital	12.35	12.35	12.35
Tangible Networkth	178.72	197.65	196.61
Total capital employed	307.93	356.63	354.49
<u>Key Ratios</u>			
<i>Growth</i>			
Growth in Total income (%)	26.58	22.87	(20.19)
Growth in PAT (after deferred tax) (%)	27.88	15.21	(53.75)
<i>Profitability</i>			
PBILDT/Total Op. income (%)	13.03	13.36	12.55
PAT (after deferred tax)/ Total income (%)	5.64	5.29	3.06
ROCE (%)	15.41	13.24	5.19
<i>Solvency</i>			
Debt Equity ratio (times)	0.13	0.22	0.17
Overall gearing ratio(times)	0.70	0.78	0.78
Interest coverage(times)	3.79	4.29	3.10
Term debt/Gross cash accruals (years)	0.59	0.97	1.01
Total debt/Gross cash accruals (years)	3.23	3.51	4.78
<i>Liquidity</i>			
Current ratio (times)	1.01	1.03	1.03
Quick ratio (times)	0.61	0.63	0.60
<i>Turnover</i>			
Average collection period (days)	100	102	128
Average inventory (days)	111	97	120
Average creditors (days)	117	106	115
Operating cycle (days)	94	93	132

A: Audited

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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instrument / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	104.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	35.00	CARE A2+
Fund-based - LT-Term Loan	-	-	FY2023	33.43	CARE A-; Stable
Fixed Deposit	-	-	-	1.48	CARE A- (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	104.00	CARE A-; Stable	1)CARE A-; Stable (03-Apr-20)	1)CARE A; Stable (02-Apr-19)	-	1)CARE A-; Stable (28-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	35.00	CARE A2+	1)CARE A2+ (03-Apr-20)	1)CARE A1 (02-Apr-19)	-	1)CARE A2+ (28-Mar-18) 2)CARE A2 (17-Apr-17)
3.	Fund-based - LT-Term Loan	LT	33.43	CARE A-; Stable	1)CARE A-; Stable (03-Apr-20)	1)CARE A; Stable (02-Apr-19)	-	1)CARE A-; Stable (28-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)

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								17)
4.	Fixed Deposit	LT	1.48	CARE A- (FD); Stable	1)CARE A- (FD); Stable (03-Apr-20)	1)CARE A (FD); Stable (02-Apr-19)	-	1)CARE A- (FD); Stable (28-Mar-18)

Annexure 3: Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Bajaj Finance Ltd.	17.19
2.	IDFC First Bank Ltd.	11.90
3.	Kotak Mahindra Bank Ltd.	4.34
	Total	33.43

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	HDFC Bank Ltd.	40.00
2.	Federal Bank	25.00
3.	DBS Bank India Ltd.	20.00
4.	Axis Bank Ltd.	19.00
	Total	104.00

Total Long Term Facilities : Rs.137.43 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Axis Bank Ltd.	25.00
2.	HDFC Bank Ltd.	10.00
	Total	35.00

Total Short Term Facilities : Rs.35.00 crore

Total Facilities (1.A+1.B+2.A) : Rs.172.43 crore

Annexure-4: Complexity level of various instruments /bank facilities rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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(This follows our brief rationale for the entity published on April 05,2021)

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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