

**Talbro's Automotives Components Limited**

April 03, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	140.18 (reduced from Rs. 140.95)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short term Bank Facilities	35 (reduced from Rs. 45 cr)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
<b>Total</b>	<b>175.18</b> <b>(Rs. One Hundred Seventy Five Crore Eighteen Lakhs only)</b>		
Medium Term Instrument (Fixed Deposit)	10	CARE A- (FD); Stable [Single A Minus (Fixed Deposits); Outlook: Stable]	Revised from CARE A (FD); Stable [Single A (Fixed Deposit); Outlook: Stable]

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Talbro's Automotives Components Ltd (TACL) factors in significant decline in operating income during 9MFY20 (refers to period April 01, 2019 to December 30, 2019) marked by decline in debt coverage indicators. Further, the ratings continue to derive strength from the experience of the promoters in the auto ancillary industry, strong global partnerships, reputed and diversified clientele and long track record of operation with strong distribution network. The ratings, however, are constrained by working capital intensive nature of operations, cyclical nature of the automotive industry and foreign currency fluctuation risk.

**Rating Sensitivities**
*Positive Factors*

- 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*

- Continuation of negative growth in the sales volume beyond Q2FY21
- Decline in PBILDT margin below 10%
- Overall gearing of more than 1x and working capital utilization of more than 80%

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Experienced promoters**

TACL is the flagship company of the Talbro's group. The chairman Mr Naresh Talwar is a Graduate from Delhi University, having 45 years of experience in the Automotive Components Industry. Mr. Naresh Talwar has set-up QH Talbro's Limited (CARE A- (Negative)/ CARE A2+) in 1986 for manufacturing of suspension, tie-rods, and ball joints etc. He has also co-promoted T&T Motors Limited, the authorized dealers for Mercedes Benz cars in Delhi NCR. 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's Limited and Nippon Leakless Talbro's Pvt. Ltd. He is a member of CII, Haryana State Council and also a member of Executive Committee of Automotive Components Manufacturers Association of India (ACMA).

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Moreover, the management team comprises of industry professionals having significant experience in the related domain of business operations.

### ***Strong global partnerships***

The company has established relationships with global companies including Nippon Leakless Corp – (Japan), Fiat Group (Italy) and Marugo Rubber (Japan). Magneti Marelli is a subsidiary of Fiat Group since 1967 with presence across the globe. The company supplies Chassis systems, front axle and rear axle to all leading car makers in Europe, North and South America and Asia with a TOI of Rs. 130 cr for the period ending March 31, 2019. Marugo Rubber Industries has global operations and supplies Anti Vibration Products (Engine Mounts, Suspension Bushes, and Muffler Hangers) with a TOI of Rs. 52.09 crore for the period ending March 31, 2019. The company Nippon Leakless Corp, Japan is one of the largest players in manufacturing of gaskets in Japan and has a TOI of Rs. 122.12 crore for the period ending March 31, 2019. Through its association with such players, the group has developed strong innovation technologies, resulting in 250 products / variants launched each year.

### ***Reputed and diversified clientele***

The group is one of the leading players in manufacturing of gaskets and heat shields with ~60% market share in India. The group caters to leading OEMs in its clientele including Hero Motorcorp limited, Maruti Suzuki India Ltd, Bajaj Auto Ltd, Tata Motors Ltd, Tata Cummins Ltd etc. The customer base is diversified with no single customer contributing more than 13% of net sales in FY19. The group also has long-standing relationships with all major OEMs in India mainly on account of its design/engineering capabilities, state-of-the-art manufacturing units and robust quality control.

### ***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 80 exclusive outlets and over 8500 dealers as on March 31, 2018, providing it seamless penetration in micro markets across India.

### ***Financial risk profile during FY19***

The total operating income of the company reported sound y-o-y growth of ~23% in FY19 to Rs.498.84 crore as compared to Rs.405.99 crore in FY18. Also, the PBILDT margin remained improved to 13.36% in FY19 (PY: 13.03%) on account of higher sales volumes and absorption of fixed cost. Further in FY19, the PAT of the company was Rs. 26.38 cr, higher by approximately 15% as compared to PAT of Rs. 22.90 cr in FY18. However, PAT margin has declined by 35 bps to 5.29% in FY19 (PY: 5.64%) on account of high interest expenses owing to additional debt availed in FY19. Capital structure of the group is comfortable marked by an overall gearing of 0.78x as on March 31, 2019 (0.70x as on March 31, 2018). Majority of debt comprises of working capital borrowings to fund operations which is inherent in the auto ancillary industry.

### ***Key Rating Weaknesses***

#### ***Decline in scale of operations in 9MFY20 and debt coverage indicators***

The company had earned total operating income of Rs.304.80 cr in 9MFY20 (9MFY19: Rs. 388.31 cr) with a y-o-y decline of 22%. The company's 9MFY20 performance has been impacted due to slowdown in the auto industry. Further, PBILDT margin stood at 13.28% (PY: 13.45%). The PAT margin stood at 3.91% (9MFY19: 5.22%). During 9MFY20, the debt coverage indicators like PBILDT/interest and Total Debt/GCA stood at 3.27x and 2.13x respectively.

#### ***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 enters into forward contracts to minimize forex losses. Furthermore, the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex

movement. Further, raw material cost accounts for around 50%-60% of total operating income, and global prices for iron and steel are volatile which expose the group to price risk.

### **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.

### **Liquidity**

Strong: The company needs to maintain inventory of around 3-4 months as it manufactures 3500 varieties of gaskets for which it requires 40 types of raw materials. 40% of these raw materials are imported from Germany, US and Japan and carry 1-2 months lead time. However, average inventory days have reduced to 92 days as on March 31, 2019 (PY: 106 days). Further, the company also maintains inventory considering demand from the aftermarkets. Credit period of 90 to 100 days is allowed to domestic as well as overseas customers. The operating cycle has reduced (FY19: 79 days; PY: 83 days). Also, the current ratio stood at 1.03x as on March 31, 2019 (PY: 1.01x). Further, the company had cash and bank balance of Rs. 11.10 cr as on December 31, 2019.

**Analytical approach: Consolidated** (The consolidated business and financial risk profiles of TALCL and its joint ventures namely Nippon Leakless Talbros Pvt Ltd, Magneti Marelli Talbros Chassis Systems Pvt. Ltd and Talbros Marugo Rubber Pvt. Ltd. have been considered as these companies (together referred as 'Group') have common management and operational linkages. )

### **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 \(Non-Financial Sector\)](#)
- [CARE's methodology for Factoring Linkages in Ratings](#)

### **About the Company**

Talbros Automotive Components Ltd. (TALCL), the flagship manufacturing company of the Talbros Group was established in the year 1956 to manufacture Automotive & Industrial Gaskets. The company was promoted by Mr. Naresh Talwar (Non- Executive Chairman) who has an experience of more than 45 years in Automotive Components Industry. Other entities belonging to the group are Nippon Leakless Talbros Pvt Ltd (NLTPL) (40: 60 JV with Nippon Leakless Corp, Japan), Magneti Marelli Talbros Chassis Systems Pvt. Ltd (MMTCPL) (50: 50 JV with Fiat Group), Talbros Marugo Rubber Pvt. Ltd. (TMRPL) (50: 50 JV with Marugo Rubber, Japan).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	405.99	498.84
PBILDT	52.88	66.65
PAT	22.90	26.38
Overall gearing (times)	0.70	0.78
Interest coverage (times)	3.79	4.29

A: Audited

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

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

### **Annexure-1: Details of Instruments/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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	35.00	CARE A2+
Fund-based - LT-Term Loan	-	-	FY2023	36.18	CARE A-; Stable
Fixed Deposit	-	-	-	10.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	104.00	CARE A-; Stable	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 A1 (02-Apr-19)	-	1)CARE A2+ (28-Mar-18) 2)CARE A2 (17-Apr-17)	-
3.	Fund-based - LT-Term Loan	LT	36.18	CARE A-; Stable	1)CARE A; Stable (02-Apr-19)	-	1)CARE A-; Stable (28-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)	-
4.	Fixed Deposit	LT	10.00	CARE A- (FD); Stable	1)CARE A (FD); Stable (02-Apr-19)	-	1)CARE A- (FD); Stable (28-Mar-18)	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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