



Talbro's Automotive
Components Ltd.

www.talbro's.com

4th April, 2023

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal street, Fort, Mumbai- 400 001 Scrip Code - 505160	The National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai- 400 051 Company Code - TALBROAUTO
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Sub: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Credit Rating for Bank facilities

Dear Sir/ Madam,

We hereby inform that CARE Ratings Limited has reaffirmed credit rating on the Long Term and Short Term Bank facilities of the Company as per report received on 3rd April, 2023, as under:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	125.07	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	45.00	CARE A1 (A One)	Reaffirmed
Total Facilities	170.07 (Rs. One Hundred Seventy Crore and Seven Lakhs Only)		

The release on ratings alongwith detailed rationale & key rating drivers is also attached.

Kindly take the same on your records.

Thanking You.

Yours Sincerely

For Talbro's Automotive Components Limited

Seema Narang
Company Secretary

Encl: As above



Talbro Automotive Components Limited

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	125.07	CARE A; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	45.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Talbro Automotive Components Limited 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 also derive comfort from company's growing scale of operations during FY22 (refers to period April 1 to March 31) and 9MFY23 (refers to April 1 to December 31) with steady profitability margins. The ratings, however, remain constrained by the company's working capital intensive nature of operations, its susceptibility to foreign currency fluctuations along with the cyclical nature of the automotive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in TOI to more than Rs. 650 crores with PBILDT margin at current levels on sustained basis.
- Reduction in gross current assets to less than 170 days and steady operational cash flows.

Negative factors

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

Analytical approach: Consolidated

The consolidated business and financial risk profiles of TACL and its joint ventures (JV) namely Nippon Leakless Talbro Pvt Ltd (NLTP, 40:60 , Gaskets), Marelli Talbro Chassis Systems Pvt. Ltd ((MTCPL, 50:50 and Chassis components like Control arm, steering knuckle, front cross member, rear twist beam axle etc.) and Talbro 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".

Outlook: Positive

The positive outlook reflects CARE's expectation of improvement in scale of operations of TACL with steady profitability margins in the near to medium term. The outlook may be revised to Stable in case of lower than envisaged improvement in total operating income and profitability, going forward.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters: 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.

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). 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

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 some of the leading OEMs 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 10% of net sales in FY22 and top three customers contributing to around 27% of the net sales in FY22 (PY: 28%). 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 stationary diesel engines. Also, the company has strong distribution and aftermarket presence with a distribution network of over 8500 dealers as on March 31, 2022, providing it seamless penetration in micro markets across India.

Growing scale of operations with steady operating margins: The company reported ~29% growth in its total operating income, which stood at Rs.580.59 crore during FY22 (PY: Rs.448.63 crore). The growth in total operating income was supported by pent-up demand in auto sector. Further, the demand from existing customers is also increasing which has contributed in the growth in total operating income. The PBILDT margin of the company improved slightly stood at 13.65% in FY22 (PY: 13.5%). Improvement was primarily due to economies of scale arising out of growth in scale of operations.

Current Year performance: During 9MFY23, company recorded ~10% growth in top-line which stood at Rs.476.52 crore during FY22 with PBILDT margin of 13.99%.

Comfortable financial profile: The capital structure stood comfortable with overall gearing of 0.30x as on March 31, 2022 (PY: 0.42x). The same improved owing to accretion of profits. Owing to improved profitability, the debt coverage indicators also stood comfortable. The interest coverage ratio and total debt to GCA stood at 6.74x and 1.35x as on March 31, 2022 (PY: 4.49x and 1.67x respectively).

Key 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 having 1-2 months' lead time for delivery. Furthermore, the company maintains significant finished products' inventory considering demand from the aftermarket. The average inventory days stood at 84 days in FY22 (PY: 105 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 remained at around 56% for the immediately preceding 12 months.

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 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: Adequate

Liquidity is adequate marked by expected accruals of ~Rs.70 crore as against repayment obligations of Rs.8.45 crore for FY23. With a gearing of 0.30x as on March 31, 2022, the issuer has sufficient gearing headroom, to raise additional debt for its capex. The company had a cash and bank balance of Rs. 2.10 crores as on March 31, 2022 which support the liquidity of the company. The average working capital utilisation stood at ~56% for trailing twelve months ending February 2023. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The current ratio also stood comfortable at 1.20x as on March 31, 2022 (PY: 1.12x).

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

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

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	448.63	580.59	476.52
PBILDT	60.57	79.28	66.66
PAT	39.13	44.89	38.69
Overall gearing (times)	0.42	0.30	-
Interest coverage (times)	4.49	6.74	8.13

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	107.00	CARE A; Positive

Fund-based - LT-Term Loan		-	-	March 2025	18.07	CARE A; Positive
Non-fund-based - ST-BG/LC		-	-	-	45.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	107.00	CARE A; Positive	1)CARE A; Stable (21-Apr-22)	1)CARE A; Stable (31-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A-; Stable (03-Apr-20)	1)CARE A; Stable (02-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1	1)CARE A1 (21-Apr-22)	1)CARE A1 (31-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A2+ (03-Apr-20)	1)CARE A1 (02-Apr-19)
3	Fund-based - LT-Term Loan	LT	18.07	CARE A; Positive	1)CARE A; Stable (21-Apr-22)	1)CARE A; Stable (31-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A-; Stable (03-Apr-20)	1)CARE A; Stable (02-Apr-19)
4	Fixed Deposit	LT	-	-	1)Withdrawn (21-Apr-22)	1)CARE A (FD); Stable (31-Mar-22) 2)CARE A-(FD); Stable (05-Apr-21)	1)CARE A-(FD); Stable (03-Apr-20)	1)CARE A (FD); Stable (02-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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