talbros

Talbros Automotive Components Ltd.

www.talbros.com

05th April, 2022

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal street, Fort, Mumbai- 400 001 **Scrip Code - 505160**	**The National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai- 400 051 **Company Code - TALBROAUTO**

Sub: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Revision of Rating of Company

Dear Sir/ Madam,

We hereby inform that Care Ratings Limited has revised credit rating on the bank facilities and fixed deposits of the Company as per report received on 05th April, 2022, as under:

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	124.74 (Reduced from 137.43)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short Term Bank Facilities	45.00 (Enhanced from 35.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**169.74 (Rs. One Hundred Sixty-Nine Crore and Seventy-Four Lakhs Only)**		
Fixed Deposit	1.48	CARE A (FD); Stable [Single A (Fixed Deposit); Outlook: Stable]	Revised from CARE A- (FD); Stable [Single A Minus (Fixed Deposit); Outlook: Stable]
Total Medium Term Instruments	**1.48 (Rs. One Crore and Forty-Eight 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 **Talbros Automotive Components Limited**

Narang

Seema Narang
Company Secretary

Talbros Automotive Components Ltd. Faridabad

Encl: As above

regd. Office : 14/1, mathura road, faridabad-121003 haryana, india . ph: + 91 129 2275434/35/36/37 . fax : +91 129 2277240, 2272263 . e-mail: talbros@talbros.com
CIN : L29199HR1956PLC033107

Talbros Automotive Components Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	124.74 (Reduced from 137.43)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short Term Bank Facilities	45.00 (Enhanced from 35.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
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Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Talbros Automotive Components Limited factors in improved operational performance of the group during FY21 *(refers to the period from April to March)* and current year backed by heathy demand dynamics, particularly Q3FY21 (*refers to period from October 1 to December 31*) onwards leading to increased volumes including exports along with better profitability margins. The ratings further 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, 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

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

- Increase in TOI by more than 20% while PBILDT margin above 15% on a sustained basis
- Reduction in gross current assets to less than 170 days and steady operational cash flows.

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

Improved operational performance

The company reported ~15% growth in its total operating income, which stood at Rs.456.74 crore during FY21 (PY: Rs.398.11 crore), whereby owing to pent-up demand in auto sector alongside festive season primarily during Q3FY21, the company recorded significant q-o-q growth of ~20% with turnover of Rs.132.06 crore over Rs.110.02 crore reported during Q2FY21 and further, in Q4FY21, the turnover further improved by ~21% and stood at Rs.160.39 crore.

The PBILDT margin of the company improved and stood at 15.04% in FY21 (PY: 12.55%) owing to better realizations from both gaskets and forgings segment along with various cost rationalization measures adopted during the year. Moreover, over the years company also increased its focus on exports with the same contributing ~25% to total sales in FY21 (FY20: 21%, FY19: 18%). Further, PAT margin significantly improved and stood at 8.57% during FY21 as against 3.06% in FY20 owing to improved scale of operations and decline in interest expense.

Current year performance: During 9MFY22 *(refers to period from April to December)*, company recorded ~49% growth in top-line which stood at Rs.435 crore (9MFY21: Rs.292.76 crore). Further, the PBILDT margin also improved and stood at 15.08% during 9MFY22 (9MFY21: 14.64%).

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

Comfortable financial risk profile
The capital structure stood comfortable with overall gearing of 0.56x as on March 31, 2021 (PY: 0.78x). The same improved owing to accretion of profits. Also, with improved profitability, the debt coverage indicators also stood comfortable. The interest coverage ratio and total debt to GCA stood at 5.09x and 2.22x as on March 31, 2021 (PY: 3.10x and 4.78x respectively).

Experienced promoters
TACL, established in 1956, is the flagship company of the Talbros group. The chairman, Mr. Naresh Talwar, is a graduate from Delhi University, having 45 years of experience in leading the Talbros group. the automotive components industry. Mr. Naresh Talwar set up QH Talbros 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 Talbros Limited and Nippon Leakless Talbros 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). 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 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 21% of net sales in FY21 and top three customers – Bajaj Auto Limited, Tata Cummins Limited, Hero MotoCorp Limited – contributing to around 37% of the net sales in FY21 (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 stationery diesel engines. Also, the company has strong distribution and aftermarket presence with a distribution network of over 8500 dealers as on March 31, 2021, providing it seamless penetration in micro markets across India.

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 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 105 days in FY21 (PY: 120 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 72% 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.

Industry Prospects
The automotive industry is witnessing one of the most challenging times, facing disruptions due to the pandemic, new technologies and regulations. Price hikes taken by the OEMs in order to offset the increasing raw material prices may further affect sales in coming months. As the 3rd wave of Covid-19 has improved, auto sales are expected to improve going ahead. There has also been some ease in semi-conductor shortages which are helping OEMs to do better dispatches of vehicles. However, it is expected the supply will improve in the coming months. If the supply change challenges and Covid-19 outbreak remain under control, growth in volumes can be expected in coming months. Going forward, the industry is looking forward to leveraging the benefits of government schemes for increasing localisation and exports.

Liquidity: Adequate
Liquidity is marked by strong expected cash accruals as against repayment obligations of Rs.8.35 crore for FY23. With a gearing of 0.56x as on March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex, whereby its capex requirements are modular and expected to be funded by a combination of debt and internal accruals going forward. 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 1.12x as on March 31, 2021 (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 'Talbros 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 "Talbros".

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
Talbros Automotive Components Ltd. (TACL), the flagship manufacturing company of the Talbros 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 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).

Brief Financials (Rs. crore) (Consolidated)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	398.11	456.74	435.00
PBILDT	49.94	68.68	65.60
PAT	12.20	39.13	32.28
Overall gearing (times)	0.78	0.56	NA
Interest coverage (times)	3.10	5.09	7.31

A: Audited; UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	107.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	45.00	CARE A1
Fund-based - LT-Term Loan		-	-	March, 2023	17.74	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	107.00	CARE A; Stable	1)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 A2+ (05-Apr-21)	1)CARE A2+ (03-Apr-20)	1)CARE A1 (02-Apr-19)	-
3	Fund-based - LT-Term Loan	LT	17.74	CARE A; Stable	1)CARE A-; Stable (05-Apr-21)	1)CARE A-; Stable (03-Apr-20)	1)CARE A; Stable (02-Apr-19)	-
4	Fixed Deposit	LT	1.48	CARE A (FD); Stable	1)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 instrument / facilities: NA

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

Sr. No	Name of 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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Sachin Mathur
Contact no.: +91-11-4533 3206
Email ID: sachin.mathur@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**