

Banco Products (India) Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term / Short-term Bank Facilities	23.50	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING* (Double A Minus; Outlook: Stable/ A One Plus; ISSUER NOT COOPERATING*)	Revised from CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus) and moved to ISSUER NOT COOPERATING category
Short-term Bank Facilities	1.50	CARE A1+; ISSUER NOT COOPERATING* (A One Plus; ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	25.00 (Rs. Twenty-five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Banco Products (India) Limited (BPIL) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Ltd.'s ratings on BPIL's bank facilities will now be denoted as **CARE AA-; Stable/CARE A1+; ISSUER NOT COOPERATING***.

Users of these ratings (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings assigned to the bank facilities of BPIL have been revised on account of the inability of CARE Ratings Ltd. to carry out the review of the ratings due to the lack of cooperation from the company.

The ratings assigned to the bank facilities of BPIL continue to derive strength from its established track record and strong position in engine cooling modules catering to multiple end-user industries, high level of integration in operations, diversified product portfolio, long-standing association with reputed clientele, established global operations in the auto ancillary segment through its foreign subsidiaries and its distribution network in more than 80 countries. The ratings also favorably factor its comfortable capital structure characterized by low leverage, healthy debt coverage indicators and strong liquidity marked by healthy liquid investments and cash balance.

The long-term rating, however, continues to remain constrained by susceptibility of BPIL's operations to the cyclical automobile segment (comprising around 40% of sales) that is facing a challenging scenario which is further elevated on the back of impact of COVID-19, and to the demand from industrial segment which is susceptible to the economic slowdown, thin profitability of its subsidiary, Nederlandse Radiateurs Fabriek B.V. (NRF), vulnerability of BPIL's profitability to high bargaining power of original equipment manufacturers (OEMs), volatile raw material prices and foreign exchange fluctuations emanating from high inventory holding of its imported raw material.

Detailed description of the key rating drivers

At the time of the last rating on January 06, 2021, the following were the rating strengths and weaknesses (Updated for the best available information):

Key Rating Strengths

Experienced promoters with established track record of operations

Mr Mehul K. Patel, the main promoter of BPIL, has more than 40 years of experience in the automobile and auto-ancillary industry. Mr Rajendra Anandpara, the Managing Director of BPIL, has more than three decades of experience in manufacturing sector. He is supported by a well-qualified and experienced team of professionals.

Integrated manufacturing facility, diversified product profile and well-established relationship with reputed OEMs and corporates

The manufacturing facilities of BPIL have an annual capacity to produce 3.33 million radiators. BPIL also has a Department of Science, Government of India (DSIR)-approved R&D facility located at Vadodara which is equipped with the capability for developing, improvising, prototyping and testing of engine cooling systems.

BPIL manufactures more than 1,000 engine cooling modules and heat exchangers, each customized according to the requirements of its end-user industry. BPIL caters to the demand from multiple end-user industries, thus making it relatively less prone to being dependent on a single industry. While the major demand comes from the auto industry (light commercial vehicles [LCV] and medium commercial vehicles [MCV] segment), BPIL also caters to the industrial and earth-moving

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

equipment, rail locomotives along with agricultural equipment industry. Besides supplying in the domestic after-market, BPIL is also India's leading exporter of after-market radiators to Europe. Furthermore, BPIL has strong distribution network in India spread across its six sales and logistics offices. BPIL has a well-diversified clientele consisting of OEMs, corporates and Indian Railways. It has a DSIR-approved R&D facility, wherein new products are developed in consultation with OEMs. The technical capability enables BPIL to work with OEMs to develop a customized product in accordance with the design and technical requirements before the product is launched. Also, BPIL is a green channel partner with many OEMs. The aforesaid arrangements give a competitive edge to BPIL over many other auto ancillary manufactures.

Its subsidiary, NRF, is an established player in the European after-market segment and has a well-diversified product range with more than 8,000 Stock Keeping Unit (SKU) in its portfolio. NRF, along with its nine subsidiaries, has three manufacturing facilities. Furthermore, it has 19 warehouses spread across Europe to facilitate express delivery across 80 countries. Banco Gaskets (India) Limited (BGIL), another subsidiary of BPIL, manufactures engine sealing systems (gaskets) and supplies to the major auto-OEMs in India.

Diverse product offering as a group, established R&D facility and the ability to quickly scale up the operations in line with requirement of the OEMs have helped BPIL in establishing strong association with multiple OEMs.

Comfortable capital structure and debt coverage indicators

BPIL has a comfortable capital structure on account of low reliance on debt to meet capital expenditure as well as working capital requirements. Overall gearing remained comfortable at 0.02x as on March 31, 2021, on account of the lower working capital borrowings. Its debt coverage indicators such as total debt to gross cash accruals (TD/GCA) and interest coverage also continued to remain comfortable during FY21 (refers to the period April 1 to March 31). Its debt coverage indicators continued to remain comfortable during 9MFY22.

Liquidity: Strong

The liquidity of BPIL is marked by strong cash accruals of Rs.140.29 crore during FY21 against negligible debt repayment obligations along with the presence of cash and bank balance to the tune of Rs.120.98 crore as on March 31, 2021, which imparts strong financial flexibility to it. With an overall gearing of 0.02 times as on March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. It has unutilized bank lines of more than 95% which are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle, however, remained long at 146 days in FY21 (157 days in FY20), mainly due to high receivables and raw material inventory; albeit the same was largely funded from internal accruals.

Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

Aluminium is the major raw material consumed by BPIL and is generally procured in equal mix by the company from domestic and international markets. Diversified product portfolio and higher lead time in the procurement of materials result in higher inventory holding. During Q3FY22, the operating profitability (PBILDT) margin of BPIL moderated mainly due to the higher raw material cost as its gross margin declined to 41% in Q3FY22 vis-à-vis 51% and 56% during Q3FY21 and Q2FY22, respectively.

The profitability of BPIL also remains susceptible to the fluctuations in the foreign currency exchange rates as BPIL's exports accounted for approximately 30% of the total sales during FY21. However, BPIL enjoys natural hedge available in the form of import of raw material which mitigates this risk to a certain extent.

High bargaining power of OEMs, which may exert pressure on profit margins of BPIL

BPIL supplies around 65% of its products to large OEMs, which have a higher bargaining power. However, due to BPIL's formula-based pricing model with major OEMs, strong R&D capability, integrated manufacturing facility, ability to deliver critical components within the specified schedule provides a competitive edge to BPIL over other manufacturers in the organised segment.

Dependency on the cyclical automobile industry and industrial segment

BPIL's revenue stream depends majorly on automobile OEMs and industrial corporates, which have witnessed cyclical trends in the past. During FY20, automobile sales witnessed decline of 20% y-o-y basis on the back of increased insurance costs, uneven monsoon, high ownership costs, curtailed lending by the NBFC segment, weak festival demand, and weak consumer sentiments. The slowdown was further elevated due to the imposition of nationwide lockdown to prevent the spread of COVID-19 and subsequent waves of COVID-19 pandemic. On the back of this, BPIL's total operating income had moderated during FY20, which, however, got largely recovered in FY21 and 9MFY22 with improved economic activities.

Analytical approach: Consolidated; CARE Ratings Limited has considered the consolidated financials of BPIL for its rating approach on account of business synergies with its subsidiaries that have been established to cater to a wider geographical market or for a related diversification to complement its existing product portfolio and they operate on a common management platform. Also, there is a demonstrated track record of dividend payout by subsidiaries to BPIL exhibiting cash flow fungibility amongst them. List of subsidiaries considered for analysis is presented in **Annexure - 4**.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology -Auto Ancillary Companies](#)
[Rating Methodology: Consolidation](#)
[Liquidity Analysis of Non-financial sector](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1961 as a private limited company, Vadodara-based BPIL is a leading manufacturer of engine cooling modules, including radiators, intercoolers as well as oil coolers for multiple industries, including automobiles, agricultural and forestry equipment, locomotives, diesel engines for power generation, construction equipment and wind turbines. BPIL currently has the capacity to produce 3.33 million radiators annually spread across its five manufacturing locations.

During 2010, BPIL acquired entire equity of NRF, for Euro 17.7 million. NRF, established in 1927 has a very strong presence in the European after-market sales for radiators and cooling systems along with a strong supply chain network and has expertise in express delivery to more than 80 countries globally. NRF, along with its subsidiaries, has manufacturing facilities across Europe for manufacturing cooling products for the automotive market, industrial, rail and marine sector.

Brief Financials - Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	1,441.96	1,540.70	1459.22
PBILDT	142.05	186.36	197.84
PAT	76.58	113.72	112.23
Overall gearing (times)	0.13	0.02	Not available
Interest coverage (times)	45.88	51.51	79.45

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: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3.

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/ ST-CC/Packing Credit		-	-	-	23.00	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	1.50	CARE A1+; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	0.50	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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/ ST-CC/Packing Credit	LT/ST*	23.00	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING*	-	1)CARE AA; Stable / CARE A1+ (06-Jan-21)	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (05-Feb-19)
2	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A1+; ISSUER NOT COOPERATING*	-	1)CARE A1+ (06-Jan-21)	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (05-Feb-19)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.50	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING*	-	1)CARE AA; Stable / CARE A1+ (06-Jan-21)	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (05-Feb-19)

*Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure -4: List of subsidiaries of BPIL getting consolidated

Sr. No.	Particulars	% holding of BPIL as on March 31, 2021
1	Banco Gaskets (India) Limited	100%
2	Nederlandse Radiateuren Fabriek BV (NRF)	100%
3	NRF Thermal Engineering BV (Skopimax BV)	100%
4	NRF France SARL	100%
5	NRF (United Kingdom) Limited	100%
6	NRF Deutschland GMBH	100%
7	NRF Espana SA	100%
8	NRF Poland SP.z.o.o	100%
9	NRF Italia SRL	100%
10	NRF Switzerland AG	100%
11	NRF USA	100%

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.

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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.

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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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