

## Banco Products (India) Limited

January 06, 2021

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	23.50	<b>CARE AA; Stable / CARE A1+</b> <b>(Double A; Outlook: Stable / A One Plus)</b>	<b>Reaffirmed</b>
Short-Term Bank Facilities	1.50	<b>CARE A1+</b> <b>(A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>25.00</b> <b>(Rupees Twenty Five Crore Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Banco Products (India) Limited (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 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 & cash balance. CARE also notes that BPIL has not availed any moratorium as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which further underlines its strong liquidity profile.

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 economic slowdown, thin profitability of its subsidiary Nederlandse Radiateuren 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. The ratings are further constrained by moderation in its consolidated scale of operations (total operating income) and profitability margins during FY20 (refers to the period April 1 to March 31); albeit the same is partially offset by recovery in demand leading to improvement in profitability margins during H1FY21.

### Rating Sensitivities

#### Positive Factors

- Significant customer and product diversification to provide greater cushion against impact of cyclicity in demand for its products
- Sustained growth in its scale of operations with TOI of more than Rs.2,000 crore while maintaining its comfortable leverage and debt coverage indicators.
- Earning PBILDT margin of more than 20% on a sustained basis
- Improvement in operating cycle to less than 100 days

#### Negative Factors

- Decline in profitability margins marked by PBILDT margin of less than 12% on a sustained basis leading to adverse impact on its debt coverage indicators
- Decline in scale of operations marked by TOI lower than Rs.1,200 crore on a sustained basis
- Any large debt funded acquisition leading to deterioration of capital structure/debt coverage indicators and/or moderation in existing liquidity

### Detailed description of the key rating drivers

#### 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 capability for developing, improvising, prototyping and testing of engine cooling systems.

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

BPIL manufactures more than 1000 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 (LCV and MCV segment), BPIL also caters to industrial and earth moving 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. BPIL 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 8000 SKU (Stock Keeping Unit) 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 major auto-OEMs in India.

Diverse product offering as a group, established R&D facility and 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 & 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 increased to 0.13x as on March 31, 2020 (0.05 times as on March 31, 2019) on account of increased working capital borrowings at overseas subsidiaries and payment of dividend to the tune of Rs.198 crore during FY20 leading to reduction in its net-worth. Due to increased debt in overseas subsidiaries and moderation in profitability during FY20, its debt coverage indicator marked by TD/GCA increased to 0.82 times during FY20 against 0.39 times during FY19 but continued to remain comfortable. Interest coverage continued to remain comfortable at 45.88 times during FY20.

#### ***Liquidity: Strong***

Liquidity of BPIL is marked by strong cash accruals of Rs.112.12 crore during FY20 against negligible debt repayment obligations along with presence of liquid investments to the tune of Rs.182.57 crore as on September 30, 2020 which imparts strong financial flexibility to it. With a gearing of 0.13 times as of March 31, 2020, 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 157 days in FY20 (141 days in FY19) mainly due to increased receivables and high raw material inventory; albeit the same was largely funded from internal accruals. Also, on the back of its strong liquidity, BPIL has not availed loan moratorium on its working capital limits which was allowed by RBI as a Covid relief measure.

#### **Key Rating Weaknesses**

##### ***Moderation in scale of operations and profitability during FY20; albeit improvement in profitability during H1FY21***

Despite decline in domestic automobile sales by ~20% during FY20, TOI of BPIL witnessed decline of 8.54% to Rs.1,442 crore as against Rs.1,577 crore in FY19 on the back of growth in TOI of NRF by 5%. On account of higher trading revenue at NRF which fetches lower margin coupled with slowdown in domestic automobile sector, BPIL's consolidated PBILDT margin continued to decline to 9.85% during FY20 from 11.77% during FY19 and 14.45% during FY18. Further, due to COVID induced lockdown, domestic automobile sector witnessed moderation of ~39% in sales during H1FY21; however, company's TOI moderated by only 9% to Rs.717.84 crore during H1FY21 as against TOI of Rs.785.16 crore on the back of steady demand from overseas subsidiaries and healthy recovery in passenger and tractor segments. Also, the group has a strong presence not only in OEM sales but caters to sizable after-market and export demand too which provides cushion to it. Moreover, due to lower raw material cost and various cost control measures undertaken by the company, PBILDT margin of the company improved to 14.29% during H1FY21 vis-a-vis 10.50% during H1FY20.

On a standalone basis, during FY20, BPIL's TOI decline by around 22% on y-o-y basis to Rs.639.74 crore on the back of slowdown in domestic auto industry. During FY20, on a standalone basis, BPIL's sales to OEM declined by 23%, after-market sales declined by 14% and exports declined by 8%. However, on account of lower raw material prices, BPIL's standalone PBILDT margin continued to remain healthy at 18.10% during FY20 (14.70% excluding dividend income) as against 22.46% during FY19 (13.44% excluding dividend income).

##### ***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 from domestic and international markets. Diversified product portfolio and higher lead time in procurement of materials result in higher

inventory holding. The operating cycle elongated to 157 days in FY20 (141 days in FY19) mainly due to high raw material inventory holding and increased receivable levels.

The profitability of BPIL also remains susceptible to fluctuations in foreign currency exchange rates as BPIL's exports accounted for approximately 25% of total sales during FY20. However, BPIL enjoys natural hedge available in the form of import of raw material (BPIL's total exports in FY20 comprised 99% of its total raw material imports) 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 specified schedule provides a competitive edge to BPIL over other manufacturers in the organized segment.

**Dependency on the cyclical automobile industry and industrial segment leading to moderation in scale of operations**

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, weak consumer sentiments. The slowdown was further elevated due to imposition of nationwide lockdown to prevent the spread of COVID-19 whereby, domestic sales declined by 39% during H1FY21 on y-o-y basis. However, with the onset of festive season, passenger vehicle segment and tractors have witnessed growth in recent months. Commercial vehicle sales have remained muted due to low freight movement, along with slower than normal mining and infrastructural activity. On the back of this, BPIL's TOI has moderated by 9% during H1FY21 on y-o-y basis.

**Analytical Approach: Consolidated;** CARE has considered consolidated financials of BPIL for its rating approach on account of business synergies with its subsidiaries which 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**

[Criteria on assigning 'outlook' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**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 & 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 of BPIL (Consolidated):**

Brief Financials (Rs. crore) - Consolidated	FY19 (A)	FY20 (A)
Total operating income	1,576.65	1,441.96
PBILDT	185.49	142.05
PAT	69.08*	76.58
Overall gearing (times)	0.05	0.13
Interest coverage (times)	43.53	45.88

A – Audited; \*PAT after adjusting for discontinued operations

As per published results for H1FY21 (consolidated), BPIL reported TOI of Rs.717.84 crore with a PAT of Rs.58.53 crore, compared with TOI of Rs.785.16 crore with a PAT of Rs.45.84 crore in H1FY20.

#### Brief financials of BPIL (Standalone):

Brief Financials (Rs. crore) – Standalone	FY19 (A)	FY20 (A)
Total operating income	819.08	639.74
PBILDT	183.97	115.77
PAT	122.91	69.52
Overall gearing (times)	0.00	0.00
Interest coverage (times)	127.93	332.01

A – Audited

As per published results for H1FY21 (standalone), BPIL reported TOI of Rs.251.11 crore with a PAT of 24.27 crore, compared with a TOI of Rs.347.52 crore with a PAT of Rs.48.20 crore in H1FY20.

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

**Any other information:** Not Applicable

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

#### Annexure – 1: Details of 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/ ST-CC/Packing Credit	-	-	-	23.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	1.50	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.50	CARE AA; Stable / CARE A1+

#### Annexure – 2: Rating History (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/ ST-CC/Packing Credit	LT/ST	23.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (05-Feb-19)	1)CARE AA; Stable / CARE A1+ (23-Jan-18)
2.	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A1+	-	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (05-Feb-19)	1)CARE A1+ (23-Jan-18)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (05-Feb-19)	1)CARE AA; Stable / CARE A1+ (23-Jan-18)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	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, 2020
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%

**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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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**