Talbros Engineering Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	24.43 (Enhanced from 4.43)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	40.00 (Reduced from 60.00)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Talbros Engineering Limited (TEL) continue to derive strength from experienced promoters along with their long track record of operations, diversified auto-component segment and reputed customer-base by virtue of their long-standing relationship with Original Equipment Manufacturers (OEMs). The rating also favourably factors in growing scale of operations along with the comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators which is expected to continue in near term backed by the continuous capacity expansion undertaken in order to increase its market share. However, the ratings continue to remain constrained by susceptibility of margins to volatility in raw material prices along with exposure to foreign fluctuation risk, working capital intensive operations, dependence on the fortunes and cyclical nature of the auto industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the scale of operations beyond Rs 600 crore along with improvement in PBILDT margin above 15% and return on capital employed (ROCE) beyond 21% on sustained basis

Negative factors

- Decline in total operating income below Rs 300 crore and PBILDT margin below 11%
- Any un-envisaged debt-funded capital expenditure deteriorating its debt equity ratio at above 0.50x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believe that despite muted demand scenario in near term on account of inflationary pressure in the export market, the entity is likely to sustain its stable operating performance due to its association with the top OEMs in the domestic market along with extensive experience of the promoters aiding in securing orders.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations albeit moderation in margins

TEL reported total operating income (TOI) of Rs 446.75 crore in FY23 (refers to period April 01 to March 31) (PY: Rs. 352.24 crore), growth of ~27% on account of higher domestic orders from TATA, M&M and Automotive Axles Limited backed by the healthy demand in urban areas, growing demand for utility vehicles, vehicle scrappage policy and higher infrastructure investment. The same is substantiated by the increase in volumes from 19.56 lakh units in FY22 to 24.32 lakh units of axle shafts sold by the company. Though, PBILDT margin moderated owing to decline in export sales having better margins and stood at 12.51% in FY23 (PY: 13.11%). Despite moderation in operational margin, PAT margin remained in line and stood at 6.25% during FY23 (PY: 6.27%) on account of reduced dependence of working capital limits thereby leading to lower interest cost.
Going forward, with the commissioning of new unit in Q4FY24 (refers to period January 01 to March 31), operational performance of the company is expected to improve, however, timely commissioning of the unit with streamlining of revenue shall remain key monitorable.

Long track record of operations with experienced and resourceful promoters

TEL has long track-record of operations dating back to 1980 and was earlier part of the erstwhile Talbros Group. The Talbros Group was founded in 1930s by Talwar family and has been into manufacturing of automotive components since 1957. The key managerial personnel of TEL - Mr. Rajesh Talwar, President and Mr. Tarun Talwar, Chief Operating Officer have a vast experience in the automotive and engineering industry and are actively involved in the day-today operations of the company. The promoters

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

have supported the company with infusion of unsecured loans which stood at Rs.24.34 crore as on March 31, 2023 (Rs.20.52 crore as on March 31, 2022).

Reputed client base with long standing relationship

TEL has a long and established relationship with reputed OEMs and Tier-1 suppliers. Its top revenue contributors are well established players who enjoy strong market position in the industry like Mahindra & Mahindra, Ashok Leyland, Spicer India limited etc and is the sole supplier of rear axle shafts to most of its customers for their specific models. The company is also focussing on exports, though, in FY23, export sales declined owing to the slowdown in US market which contributed ~15% to the gross sales in FY23 (PY: 25%).

Diversified Segment base

The company caters to the axle requirements of varied segments, thereby insulating it from the volatility in any one segment. The company derives major share of its revenue from the Utility Vehicles segment contributed 56% to the total gross sales during FY23 (PY: 47%) followed by Commercial Vehicle segment contributed 22% to the total gross sales during FY23 (PY: 20%) and tractors segment contributed 5% to the total gross sales during FY23 (PY: 5%) in the domestic market. Further, the company also has presence into the exports (primarily replacement market) which contributed around 15% to the total gross sales during FY23 (PY: 25%), thereby also leading to geographical diversification.

Comfortable financial risk profile

The overall gearing of TEL stood comfortable at 0.69x as on March 31,2022 (PY: 0.71x). The same improved marginally due to the repayment of short-term debt taken in FY21 along with the increase in the net-worth base due to the accretion of profits and infusion of funds by the promoters in the form of subordinated debt which is partially offset by term loan taken for purchase of land and capacity expansion from 21 lakh unit to 24 lakh unit. With improvement in profitability, the debt coverage indicators also improved and stood comfortable. The interest coverage ratio and total debt to GCA stood at 5.46x and 2.56x as on March 31,2022 respectively (PY: 4.81x and 3.30x respectively).

Key weaknesses

Working Capital intensive operations

Being in the auto ancillary industry, the operations of the company are working capital intensive in nature. The company maintains inventory of around 2-3 months with large product range of axle shafts and spindles. The average debtor days usually remain in the range of 60-70 days as OEMs have higher bargaining power. Further, the creditors period remains in the range of 2 months. The company's operating cycle, though improved, remained elongated at 82 days as on March 31, 2023 (PY: 83 days).

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.

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices along with the presence of foreign fluctuation risk

Though, there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision beyond 5% in the raw material prices, is reset by the OEMs on quarterly/half yearly basis. The major raw material (steel) cost accounts for around 59% of total cost of sales in FY23 (PY: 55%), furthermore, global prices for steel are volatile which exposes TEL to price risk. Further, the company is also engaged in exports of axles shafts which exposes it to forex risk, though, based on the management's insight and market information, the company enters into hedging to cover part of its foreign exchange risk. Due to the currency fluctuations company reported gain on foreign exchange transactions of Rs. 2.52 crore during FY23 (PY: Gain of Rs. 1.09 crore).

Liquidity: Adequate

The company has adequate liquidity as characterized by sufficient cushion in expected gross cash accruals of Rs.37.97 crore vis-à-vis repayment obligations of Rs.10.41 crore during FY24. The company has planned to incur capex of Rs. 20 crore in FY24, of which, Rs 15 crore pertains to the plant and machinery of new unit against which debt of Rs 12 crore is sanctioned and remaining towards routine nature capex which will be funded from internal accruals only. The company has sufficient headroom to raise debt going forward with comfortable capital structure having an overall gearing below 1x. Its bank limits are utilized to the extent of 50% for the past twelve months ending May 2023 and has above unity current ratio.

Applicable criteria

Policy on default recognition
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](#)
[Policy on Withdrawal of Ratings](#)

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

Talbros Engineering Ltd (TEL), originally a part of Talbros Automotive Components Ltd. was separated into another company in 1996. TEL is engaged in the manufacturing of automotive rear axle shafts and other splined shafts and forgings used in commercial vehicles, utility vehicles and tractors. TEL has total five manufacturing plants with total manufacturing capacity of 27 lakhs axle shafts per annum as on March 31, 2023. The company manufactures and sells 85% of its products to OEMs in the domestic market and remaining 15% are exported, primarily to the replacement market of North America.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	352.24	446.69
PBILDT	46.16	55.90
PAT	22.10	27.93
Overall gearing (times)	0.77	0.60
Interest coverage (times)	5.46	6.00

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-Term Loan		-	-	March-2029	24.43	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	40.00	CARE A-; Stable / CARE A2+

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	24.43	CARE A-; Stable	-	1)CARE A-; Stable (04-Aug-22)	1)CARE BBB+; Positive (15-Sep-21)	1)CARE BBB+; Negative (08-Oct-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	40.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Aug-22)	1)CARE BBB+; Positive / CARE A2 (15-Sep-21)	1)CARE BBB+; Negative / CARE A2 (08-Oct-20)

*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-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	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.

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About us:

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