

## Talbro Automotive Components Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	123.18 (Reduced from 125.07)	CARE A+; Stable	Revised from CARE A; Positive
Short Term Bank Facilities	45.00	CARE A1+	Revised from CARE A1

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Talbro Automotive Components Limited (TACL) factors in improvement in operational performance of the company owing to pent-up demand in the automobile sector coupled with increase in share of business from the existing customers as reflected by growing scale of operations during FY23 (refers to the period from April 01, 2022 to March 31, 2023) and Q1FY24 (refers to the period from April 01, 2023 to June 30, 2023), steady profitability margins, and comfortable capital structure marked by low overall gearing. The ratings continue to factor TACL's experienced promoters, its strong partnership with globally reputed clients, its diversified customer base across varied segments, and its long track record of operations. However, the ratings 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

- Improvement in scale of operations to more than Rs.1,200 crore on standalone basis with PBILDT margin in the range of ~12%-14% on a sustained basis.
- Steady cash flow from operations leading to further improvement in liquidity position.

#### Negative factors

- Decline in scale of operations with PBILDT margin below 10% on a sustained basis.
- Increase in overall gearing to more than 0.70x.

### Analytical approach: Consolidated

The consolidated business and financial risk profiles of TACL and its joint ventures (JV) namely Nippon Leakless Talbro Pvt Ltd (NLTP), Marelli Talbro Chassis Systems Pvt. Ltd (MTCPL) and Talbro Marugo Rubber Pvt. Ltd. (TMRPL) 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: Stable

CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance. CARE Ratings also believes that TACL shall sustain its comfortable financial risk profile over the medium term.

### Detailed description of the key rating drivers:

#### Key strengths

**Improvement in operational performance:** Despite inflationary pressure throughout the year, preponing purchases before the implementation of new fuel emission norms (BS-VI Phase -II), easing of semiconductor chip supply, and pent-up demand in the automobile industry led to sales growth for the automobile industry. As a result, total operating income of the company grew by ~12% to Rs.648.31 crore in FY23 (PY: Rs.580.59 crore). The PBILDT margin of the company stood healthy at 13.73% in FY23 (PY: 13.65%). However, the PAT margin of the company improved further to 8.57% in FY23 (PY: 7.73%) on account of decrease in interest and depreciation expense as a percentage of total operating income owing to increase in scale of operations. Going forward, CARE expects the PBILDT margin to remain in the range of ~13%-14%.

**Current Year Performance:** During Q1FY24, the total operating income of the company grew further by ~20% to Rs.182.83 crore (PY: Rs.152.97 crore). The PBILDT margin of the company improved to 13.87% in Q1FY24 (PY: 12.45%). Improvement was primarily due to economies of scale arising out of growth in scale of operations. Consequently, the PAT margin of the company improved to 9.53% (PY: 7.78%).

**Comfortable financial profile:** The capital structure stood comfortable with overall gearing of 0.24x as on March 31, 2023 (PY: 0.30x). The same improved owing to accretion of profits to net-worth. Owing to improved profitability, the debt coverage

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

indicators also stood comfortable. The interest coverage ratio and total debt to GCA stood at 7.83x and 1.10x respectively as on March 31, 2023 (PY: 6.74x and 1.35x 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 46 years of experience in leading the Talbros group. He is ably supported by Mr. Umesh Talwar, an MBA from XLRI, Jamshedpur, having 39 years of experience in the Automotive Components. Mr. Umesh Talwar is also a promoter director of QH Talbros Limited (rated CARE A; Stable/CARE A1) and Nippon Leakless Talbros Private Limited. Moreover, the management team comprises of industry professionals having significant experience in their respective domains.

**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 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 (rated CARE AA; Stable/CARE A1+), etc. The customer base is diversified with no single customer contributing more than 13% of net sales in FY23 and top three customers contributing to around 28% of the net sales in FY23 (PY: ~27%). 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. Further, segment wise sales are also diversified with 2 & 3-wheeler (~22%), PV (~28%), HCV & LCV (~26%), Agri & Off-loader (13%) of total revenue.

## 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 85 days in FY23 (PY: 84 days). The company allows a credit period of 100 to 130 days to domestic as well as overseas customers. For raw material that is imported, the company getting credit period of up to 120 days. 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 54% for the immediately preceding 12 months ending August 31, 2023.

**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 30%. Furthermore, the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex movement. Further, 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 domestic automobile sales volume is expected to show moderate growth by 7-9% in FY24, after witnessing double-digit growth in FY23. While passenger vehicle sales volume growth is expected to be healthy at 10-12% led by high demand in the sports utility vehicle segment, two-wheeler sales volume growth is expected to remain moderate at 7-9% due to the high cost of ownership and transition towards electric vehicles. Although consistently high inflationary and interest rate environment could dampen consumer sentiment, monsoons remain a key monitorable for rural demand growth going forward.

**Liquidity: Adequate:** The liquidity of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.90.84 crore in FY24 against scheduled term loan repayments of only Rs.5.61 crore. Further, the average utilization of working capital utilization stood moderate at ~54% for the trailing 12 months ended August 31, 2023. The company at consolidated level had free cash and bank balance of Rs.5.28 crore as on March 31, 2023. The company at consolidated level is planning to incur

capex of ~Rs.35.00 crore which pertains to capacity expansion of gasket & heat shield division and capacity expansion of forging division. The same shall be funded through debt (~Rs.7.50 crore) and remaining from internal accruals.

### 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](#)

[Policy on Withdrawal of Ratings](#)

### About the company and industry

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 46 years in Automotive Components Industry. Other entities belonging to the group are Nippon Leakless Talbro Private Ltd (NLTPL) (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).

### Industry classification

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

Brief Financials (₹ crore)	FY22(A)	FY23(A)	Q1FY24 (UA)
Total operating income	580.59	648.31	182.83
PBILDT	79.28	88.99	25.35
PAT	44.89	55.58	17.42
Overall gearing (times)	0.30	0.24	NA*
Interest coverage (times)	6.74	7.83	7.92

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA\*: Not 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/03/2025	16.18	CARE A+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	107.00	CARE A+; Stable
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 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-Working Capital Limits	LT	107.00	CARE A+; Stable	1)CARE A; Positive (03-Apr-23)	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)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	1)CARE A1 (03-Apr-23)	1)CARE A1 (21-Apr-22)	1)CARE A1 (31-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A2+ (03-Apr-20)
3	Fund-based - LT-Term Loan	LT	16.18	CARE A+; Stable	1)CARE A; Positive (03-Apr-23)	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)
4	Fixed Deposit	LT	-	-	-	1)Withdrawn (21-Apr-22)	1)CARE A (FD); Stable	1)CARE A (FD); Stable

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
							(31-Mar-22) 2)CARE A-(FD); Stable (05-Apr-21)	(03-Apr-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-Working Capital Limits	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](#)

**Annexure-6: List of companies in JV- Talbros Automotive Components Limited**

Subsidiaries	% Holding as on March 31, 2023
Nippon Leakless Talbros Private Limited	40%
Marelli Talbros Chassis Systems Private Limited	50%
Talbros Marugo Rubber Private Limited	50%

**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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