

Talbro Engineering Limited

June 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.43 (Reduced from 24.43)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	50.00 (Enhanced from 40.00)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Talbro 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 healthy scale of operations albeit with slight moderation in FY24 (refers to the period from April 01 to March 31) on account of steel price correction and slight reduction in export sales. Further, ratings are strengthened by the comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators. 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 return on capital employed (ROCE) beyond 21% on a 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 and leading to any moderation in company's liquidity profile.

Analytical approach: Standalone

Outlook: Stable

The Stable Outlook represents CARE Ratings' expectation of sustenance of TEL's scale of operations despite muted demand scenario in domestic market in medium term on account of 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

Healthy scale of operations albeit with continued moderation in margins

Despite sales volume remaining at par with the last fiscal, TEL reported moderation in its topline by 8% to Rs 410.64 crore in FY24 (PY: Rs 446.69 crore), mainly on account of decline in the average selling price following a correction in steel prices, along with reduction in high-margin export sales to Rs 56.14 crore (PY: Rs 64.59 crore) due to a slowdown along with supply chain disruption in the export market. Consequently, the company's margins were impacted due to fluctuation in the raw material prices (primary raw material constituting approximately 60% of the cost of sales), leading to PBILDT margin dropping to 10.60% and PAT margin to 4.34% in FY24 (PY: 12.51% and 6.25%, respectively). Going forward, with muted growth in the Indian automobile sector, the timely commissioning of the new unit and the streamlining of revenue shall remain key monitorable.

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

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-to-day operations of the company. The promoters have supported the company with infusion of unsecured loans which stood at Rs 33.36 crore as on March 31, 2024 (Rs 24.34 crore as on March 31, 2023).

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 the company 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 FY24, export sales declined owing to the slowdown in export market which contributed ~14% to the gross sales in FY24 (PY: 15%).

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 55% to the total gross sales during FY24 (PY: 56%) followed by Commercial Vehicle segment contributed 23% to the total gross sales during FY24 (PY: 22%) and tractors segment contributed 4% to the total gross sales during FY24 (PY: 5%) in the domestic market. Further, the company also has presence into the exports (primarily replacement market) which contributed around 14% to the total gross sales during FY24 (PY: 15%), thereby also leading to geographical diversification.

Comfortable financial risk profile

The overall gearing of TEL stood comfortable at 0.59x as on March 31, 2024 (PY: 0.60x). The same has improved marginally over the years on account of accretion of profits, infusion of funds by the promoters in the form of subordinated debt which is partially offset by term loan taken for capacity expansion and regular maintenance. The debt coverage indicators also stood comfortable with interest coverage ratio and total debt to GCA (Gross cash accruals) stood at 4.54x and 3.40x as on March 31, 2024, respectively (PY: 6x and 2.32x 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 95 days as on March 31, 2024 (PY: 82 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.

Susceptibility of margins to volatility in raw material prices and presence of foreign fluctuation risk

Though, there exists limited bargaining power with the customers, since the major customers are automobile manufacturers/OEMs, TEL 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 60% of total cost of sales in FY24 (PY: 59%), 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 0.61 crore during FY24 (PY: Gain of Rs 2.52 crore).

Liquidity: Adequate

The company has adequate liquidity as characterized by sufficient cushion in expected gross cash accruals of Rs 30.59 crore vis-à-vis repayment obligations of Rs 17 crore for FY25. The company has planned to incur capex of Rs 21.80 crore, of which, Rs

2.45 crore pertains to new unit and remaining towards routine maintenance capex to be funded by additional debt of Rs 15 crore and balance through internal accruals. 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 51% for the past twelve months ending May 2024 and the company has above unity current ratio as on March 31, 2024.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

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

Talbro Engineering Ltd (TEL), originally a part of Talbro 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 six manufacturing plants with total manufacturing capacity of 27 lakhs axle shafts per annum as on March 31, 2024. The company manufactures and sells 86% of its products to OEMs in the domestic market and remaining 14% are exported, primarily to the replacement market of North America.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	446.69	410.64
PBILDT	55.90	43.54
PAT	27.93	17.83
Overall gearing (times)	0.60	0.59
Interest coverage (times)	6.00	4.54

A: Audited; 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 (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		-	-	March 2029	14.43	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	50.00	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	14.43	CARE A-; Stable	-	1)CARE A-; Stable (05-Jul-23)	1)CARE A-; Stable (04-Aug-22)	1)CARE BBB+; Positive (15-Sep-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	50.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Jul-23)	1)CARE A-; Stable / CARE A2+ (04-Aug-22)	1)CARE BBB+; Positive / CARE A2 (15-Sep-21)

LT: Long term; LT/ST: 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-Working Capital Limits	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.

Contact us

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About us:

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