Talbros Automotive Components Limited

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	118.47 (Reduced from 123.18)	CARE A+; Stable	Reaffirmed
Short Term Bank Facilities	45.00	CARE A1+	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 Automotive Components Limited (TACL) factors in sustained improvement in operational performance of the company owing to increased demand from existing customers supported by strong industry dynamics leading to growing scale of operations during FY24 (refers to the period from April 01, 2023 to March 31, 2024) and Q1FY25 (refers to the period from April 01, 2024 to June 30, 2024). The ratings continues to derive strength from improved profitability margins, and comfortable capital structure marked by low overall gearing. The ratings also continue to factor in TACL's experienced promoters, its strong partnership with globally reputed clients, its diversified products, customer base across varied segments and geographies, and its long track record of operations. However, the ratings continue to remain constrained by the company's working capital intensive nature of operations, 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 the scale of operations to more than Rs.1200 crore on a 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 approach
The consolidated business and financial risk profiles of TACL and its joint ventures (JV) namely Marelli Talbros Chassis Systems Pvt. Ltd (MTCPL) and Talbros Marugo Rubber Pvt. Ltd. (TMRPL) have been considered as these companies (together referred as 'Talbros 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 "Talbros". The details of the entities consolidated are provided in Annexure-6.

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 key rating drivers:

Key strengths

Sustained improvement in operational performance during FY24 and Q1FY25
The total operating income of the company reported y-o-y growth of ~21% and stood at Rs.781.59 crore in FY24 (PY: Rs.648.31 crore). The same is owing to increase in demand from existing customers backed by strong industry dynamics, whereby the company witnessed growing volume from exports in forging segment. The PBILDT margin improved by 142 bps and stood at 15.15% in FY24 (PY: 13.73%) owing to economies of scale. Further, the PAT margin also improved and stood at 14.07% in FY24 (PY: 8.57%) backed by improvement in PBILDT and increase in the income from Joint ventures (JVs), which has been included as a part of non-operating income.
Q1FY25 performance: In Q1FY25, the company reported y-o-y growth of ~13% in the total operating income, which stood at Rs.209.24 crore in FY24 (PY: Rs.185.32 cr.). Further, the PBILDT margin improved by 153 bps and stood at 16.53% in Q1FY25

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

(PY: 15.03%). The same was owing to the various cost optimization measures undertaken by the company along with favourable domestic-export mix. The PAT margin also improved and stood at 12.63% in Q1FY25 (PY: 11.92%).

Comfortable financial risk profile
The capital structure stood comfortable with overall gearing of 0.18x as on March 31, 2024 (PY: 0.24x). The same improved owing to accretion of profits to net worth. Owing to improved profitability, the debt coverage indicators also stood comfortable. The interest coverage ratio and total debt to GCA stood at 8.93x and 0.73x respectively as on March 31, 2024 (PY: 7.83x and 1.10x 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 more than 40 years of experience in the Automotive Components. Mr. Umesh Talwar is also a promoter director of QH Talbros Private 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 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. During Q4FY24 (refers to period from Jan 01, 2023 to March 31, 2024), the company completed the process of divesting and selling its entire 40% stake in its Joint Venture, "Nippon Leakless Talbros Private Limited" (NLTPL) constituting 48,00,000 fully paid up equity shares of Rs.10 each for Rs.81.80 crore.

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 14% of net sales in FY24 and top three customers contributing to around 29% of the net sales in FY24 (PY: ~28%). 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 longstanding 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 (~19%), PV (~34%), HCV & LCV (~24%), Agri & Off-loader (10%) 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 74 days in FY24 (PY: 85 days). The company allows a credit period of 94 to 120 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 69% for the immediately preceding 12 months ending June 30, 2024.

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%. Further, the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex movement. Furthermore, 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. Further, 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 PV industry is expected to exhibit moderate volume growth of around 3-5% in FY25 on account of a high base effect of FY24, shrinking order book and expectation of persistently subdued demand for entry-level variants in FY25. The industry is however poised to sustain its sales momentum, bolstered by the strong demand for new model launches and SUVs coupled with expectation of interest rate cuts in the second half of FY25. Further, the CV industry in India witnessed remarkable year-on-year volume growth during FY22 and FY23 of around 30.7% and 28.7% respectively. This surge was fuelled by pent-up demand as the economy recovered from the Covid-19 pandemic. MHCVs and LCVs played pivotal roles in driving overall sales volume within the commercial vehicle sector. Improved industrial and infrastructure demand drove MHCV growth while LCV was boosted by sustained growth in e-commerce. Two-wheeler industry is expected to sustain a steady volume growth rate of around 7-9% in FY25, which would be slightly lower than 9.8% growth achieved in FY24.

Liquidity: Adequate
The liquidity of the company is adequate as reflected by projected gross cash accruals to the tune of ~Rs.100.57 crore in FY25 against scheduled term loan repayments of only Rs.6.16 crore. Further, the average utilization of working capital utilization stood moderate at ~69% for the trailing 12 months ended June 30, 2024. The company at consolidated level had bank balance of Rs.69.34 crore as on March 31, 2024. The liquidity improved on account of proceeds from the stake sale of one of its JVs, namely Nippon Leakless Talbros Private Limited. The company at consolidated level is planning to incur capex of ~Rs.25-32 crore (~6% of tangible net-worth as on March 31, 2024) which pertains to capacity expansion of gasket division (heat shield) and towards capacity expansion of forging division and the same is expected to be funded from internal accruals.

Environment, social, and governance (ESG) risks:

Environmental: The company adheres to strict benchmarks and environmental parameters with IATF 16949, ISO-14001 and ISO 45001 certifications.

Social: Company has formulated a Corporate Social Responsibility (CSR) policy which encompasses its philosophy and guides its sustained efforts for supporting socially useful programs for welfare and sustainable development of the weaker sections of the society. The company has contributed to several organizations namely Servants of the People Society, Roshni Education Society, CRY, Save the Children, Savera Association and PM Cares fund along with contribution for various activities related to promotion of healthcare including preventive healthcare against COVID-19 for fulfilling its CSR obligations.

Governance: As per corporate governance report for FY24, the company is in compliance with the requirements stipulated under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 (hereinafter referred as "SEBI Listing Regulations") with respect to corporate governance and a report on Corporate Governance in accordance with Part C of Schedule V to the SEBI Listing Regulations.

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
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Talbros Automotive Components Ltd. (TACL), the flagship manufacturing company of the Talbros 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 40 years in Automotive Components Industry. Other entities belonging to the group are Magneti Marelli Talbros Chassis Systems Private Ltd (MMTCPL) (50: 50 JV with Fiat Group) and Talbros Marugo Rubber Private Ltd. (TMRPL) (50: 50 JV with Marugo Rubber, Japan).

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	648.31	781.59	209.24
PBILDT	88.99	118.41	34.59
PAT	55.58	109.98	20.61
Overall gearing (times)	0.24	0.18	NA
Interest coverage (times)	7.83	8.93	10.36

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31/03/2025	11.47	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 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-Working Capital Limits	LT	107.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-23) 2)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)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (04-Oct-23) 2)CARE A1 (03-Apr-23)	1)CARE A1 (21-Apr-22)	1)CARE A1 (31-Mar-22) 2)CARE A2+ (05-Apr-21)
3	Fund-based - LT-Term Loan	LT	11.47	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-23) 2)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)
4	Fixed Deposit	LT	-	-	-	-	1)Withdrawn (21-Apr-22)	1)CARE A (FD); Stable (31-Mar-22) 2)CARE A- (FD); Stable (05-Apr-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of 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 entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Marelli Talbros Chassis Systems Pvt. Ltd	Proportionate	Joint Venture
2	Talbros Marugo Rubber Pvt. Ltd.	Proportionate	Joint Venture

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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