Talbros Engineering Limited

July 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	27.50 (Enhanced from 14.43)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	70.00 (Enhanced from 50.00)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Talbros Engineering Limited (TEL) continue to derive strength from its experienced promoters and their long track record of operations, diversified automobile segments mix and reputed customer base considering its long-standing relationship with original equipment manufacturers (OEMs). Ratings also favourably factor in TEL's steady scale of operations in FY25 (refers to April 01 to March 31), driven by improved export sales and demand in the domestic market, leading high-capacity utilisation levels. Ratings continue to take comfort from the comfortable financial risk profile, though the debt coverage indicators remained moderate.

However, ratings continue to remain constrained by the susceptibility of margins to raw material price volatility, exposure to foreign exchange fluctuation risk, working capital intensive operations, and the cyclical auto industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the scale of operations beyond ₹600 crore and improvement in return on capital employed (ROCE) above 21% on a sustained basis while maintaining overall gearing below unity.

Negative factors

- Decline in total operating income (TOI) below ₹300 crore and profit before depreciation, interest, lease rentals, depreciation and taxes (PBILDT) margin below 11% on a sustained basis.
- Un-envisaged debt-funded capital expenditure deteriorating its debt equity ratio at above 0.50x and leading moderation in the company's liquidity profile.

Analytical approach: Standalone

Outlook: Stable

The Stable Outlook reflects CARE Ratings Limited's (CareEdge Ratings) expectation of sustenance in TEL's scale of operations, supported by its association with leading OEMs in the domestic market and timely completion of capital expenditure at its new plant without cost overrun.

Detailed description of key rating drivers:

Key strengths

Long track record of operations with experienced and resourceful promoters

TEL has a long track record of operations dating back to 1980, having previously been part of the erstwhile Talbros Group. The Talbros Group was founded in the 1930s by the Talwar family and has been manufacturing automotive components since 1957. TEL's key managerial personnel, Rajesh Talwar (president) and Tarun Talwar (chief operating officer), possess vast experience in the automotive and engineering industry and are actively involved in the company's day-to-day operations. The promoters have supported the company with the infusion of unsecured loans, which stood at ₹24.34 crore as on March 31, 2025 (₹33.35 crore as on March 31, 2024).

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

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 such as Mahindra & Mahindra, Ashok Leyland and Spicer India limited among others, and the company is the sole supplier of rear axle shafts to most customers for their specific models. This association with leading OEMs results in repeat orders, leading to consistent capacity utilisation of over 90% in recent years, necessitating regular capacity expansions at its plants.

Diversified segment base

TEL caters axle requirements of varied segments, insulating it from volatility in one segment. The company derives major share of its revenue from the utility vehicles (UV) segment contributing 54% to the total gross sales in FY25 (PY: 55%) followed by commercial vehicle (CV) segment contributing 23% to the total gross sales in FY25 (PY: 23%) and tractors segment contributing 2% to the total gross sales in FY25 (PY: 4%) in the domestic market. The company also has presence in exports (primarily replacement market) which contributed ~17% to the total gross sales in FY25 (PY: 14%), leading to geographical diversification.

Comfortable financial risk profile

TEL's overall gearing stood comfortable at 0.69x as on March 31, 2025 (PY: 0.59x). This has moderated slightly in FY25 owing to debt funded capex undertaken. The debt coverage indicators remained moderate with interest coverage ratio and total debt to gross cash accruals (TD/GCAs) stood at 4.24x and 3.68x as on March 31, 2025, respectively (PY: 4.54x and 3.40x, respectively). The company's overall gearing is expected to remain similar in medium term owing to need for regular capacity addition to cater growing demand for rear axle shafts across segments.

Steady operational performance

The company's TOI has shown steady trend and grown at a compounded annual growth rate (CAGR) of 17% in the last five fiscals ending March 31, 2025. The company's TOI improved to ₹446.40 crore in FY25 (compared to ₹410.64 crore in FY24) driven by continued improvement in volume sold in domestic market and improved export demand after a muted demand scenario from USA in previous year. Higher export sales (better margin segment) also led to improvement in the company's PBILDT margin which stood at 11.18% in FY25, improving by 58 bps against 10.60% in FY24. The PBILDT margin has shown a consistent trend in the range of 11-12% in the last few years despite continuous capex undertaken. Timely commissioning of the new unit and streamlining revenue remains key monitorable.

Key weaknesses

Working capital intensive operations

Being in the auto ancillary industry, the company's operations remain working capital intensive. The company maintains inventory of ~2-3 months with large product range of axle shafts and spindles. Average debtor days typically range from 60-70 days due to the higher bargaining power of OEMs, while the credit allowed by suppliers is around one month. The company's operating cycle has remained elongated at 98 days as on March 31, 2025 (PY: 95 days).

Cyclical automotive industry

The automobile industry is cyclical and automotive component suppliers' sales are directly linked to sales of auto OEMs. The auto-ancillary industry is competitive with the presence of many players in the organised and unorganised sector. While the organised segment majorly caters the OEM segment, the unorganised segment caters the replacement market and to tier II and III suppliers. Hence, the company's operations remain susceptible to economic cycles and inherent volatility in the automotive industry.

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

TEL's margins are susceptible to raw material price volatility, particularly steel, which accounts ~60% total cost of sales in FY25 (PY: 60%). Global steel prices are volatile, exposing TEL to commodity price risk. Although TEL has limited bargaining power with its major customers, it has a mechanism to reset revision beyond 5% in raw material prices on a quarterly/half-yearly basis. The company is also engaged in exports of axles shafts which exposes it to forex risk, though, the company enters hedging to cover part of its foreign exchange risk. Due to the currency fluctuations, the company reported gain on foreign exchange transactions of ₹0.31 crore in FY25 (PY: gain of ₹0.61 crore).

Liquidity: Adequate

The company has adequate liquidity as marked by sufficient cushion in expected GCAs of ₹39 crore against repayment obligations of ₹14.89 crore for FY26. The company has planned to incur capex of ₹25.50 crore, to be funded by additional debt of ₹12 crore and balance through internal accruals. The company has sufficient gearing headroom to raise additional debt (if required) going forward with comfortable capital structure having an overall gearing below 1x. Its bank limits are utilised to the extent of 73% for the last 12 months ending May 2025 and the company has above unity current ratio as on March 31, 2025.

Environment, social, and governance (ESG) risks: Not applicable

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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components and equipment

TEL was originally a part of Talbros Automotive Components Ltd. and separated to another company in 1996. TEL is engaged in manufacturing 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 28.20 lakhs axle shafts per annum as on March 31, 2025. The company manufactures and sells 83% products to OEMs in the domestic market and remaining 17% are exported, primarily to the replacement market in North America.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	410.64	446.40
PBILDT	43.54	49.92
PAT	17.83	20.17
Overall gearing (times)	0.59	0.69
Interest coverage (times)	4.54	4.24

A: Audited; 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		-	-	March 2029	27.50	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	70.00	CARE A-; Stable / CARE A2+

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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	27.50	CARE A-; Stable	-	1)CARE A-; Stable (28-Jun-24)	1)CARE A-; Stable (05-Jul-23)	1)CARE A-; Stable (04-Aug-22)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	70.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (28-Jun-24)	1)CARE A-; Stable / CARE A2+ (05-Jul-23)	1)CARE A-; Stable / CARE A2+ (04-Aug-22)

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

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/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge 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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