

Banco Products (India) Limited

January 06, 2020

Rating

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long Term / Short Term Bank Facilities	23.50	CARE AA; Stable / CARE A1+ (Double A; Outlook : Stable / A One Plus)	Reaffirmed
Short-Term Bank Facilities	1.50	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	25.00 (Rupees Twenty Five Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Banco Products (India) Limited (BPIL) continue to derive strength from its established track record in engine cooling modules catering to diversified end-user industries, strong competitive position, high level of integration in operations, diversified product portfolio, long-standing association with reputed clientele, established global operations in auto ancillary segment through its foreign subsidiaries and its distribution network in more than 80 countries. The ratings also favorably factor the consistent growth in its scale of operations, comfortable capital structure characterized by low leverage, healthy debt coverage indicators and strong liquidity marked by healthy liquid investments & cash balance.

The long term rating, however, continues to remain constrained by susceptibility of BPIL's scale of operations to the cyclical automobile segment (comprising around 45% of sales), which is currently facing a challenging scenario, and to the demand from industrial segment, thin profitability of its subsidiary Nederlandse Radiateuren Fabriek B.V. (NRF), moderation in consolidated profitability margins during FY19 (refers to the period April 1 to March 31) & H1FY20, vulnerability of BPIL's profitability to high bargaining power of Original Equipment Manufacturers (OEMs), volatile raw material prices and foreign exchange fluctuations emanating from high inventory holding of its imported raw material.

Key Rating Sensitivities

Positive Factors

- Significant customer and product diversification to provide greater cushion against impact of cyclicity in demand for its products.
- Sustained growth in its scale of operations with TOI of more than Rs.2,000 crore while maintaining its comfortable leverage and debt coverage indicators.
- PBILD margin of more than 20% on a sustained basis
- Improvement in operating cycle to less than 100 days

Negative Factors

- Decline in profitability margins marked by PBILD margin of less than 12% on a sustained basis leading to adverse impact on its debt coverage indicators
- Decline in scale of operations marked by TOI lower than Rs.1,200 crore on a sustained basis
- Any large debt funded acquisition leading to deterioration of capital structure/debt coverage indicators and/or moderation in existing liquidity

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record of operations

Mr. Mehul K. Patel, the main promoter of BPIL has more than 40 years of experience in the automobile and auto-ancillary industry. Mr. Samir Patel, brother of Mr. Mehul Patel, also has a rich experience of more than four decades in metal engineering industry. Mr. Rajendra Anandpara, the Managing Director of BPIL has more than three decades of experience in manufacturing sector. He is supported by a well-qualified and experienced team of professionals.

Integrated manufacturing facility, diversified product profile and well-established relationship with reputed OEMs and corporates

The manufacturing facilities of BPIL have an annual capacity to produce 3.33 million radiators. BPIL also has a Department of Science, Government of India (DSIR) approved R&D facility located at Vadodara which is equipped with capability for developing, improvising, prototyping and testing of engine cooling systems.

BPIL manufactures more than 1000 engine cooling modules and heat exchangers, each customized according to the requirements of its end user industry. BPIL's end user base is well diversified, making it less prone to being dependent on

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

a single industry. While the major demand comes from the auto industry (LCV and MCV segment), BPIL also caters to industrial and earth moving equipment, rail locomotives along with agricultural equipment industry. Besides supplying in the domestic aftermarket, BPIL is also India's leading exporter of aftermarket radiators to Europe. Furthermore, BPIL has strong distribution network in India spread across its six sales and logistics offices. BPIL has a well-diversified clientele consisting of OEMs, corporates and Indian Railways.

NRF is an established player in the European aftermarket segment and has a well-diversified product range with more than 8000 SKU (Stock Keeping Unit) in its portfolio. Around 75% of the sales of NRF are from trading operations which enables it to offer diversified products to its customers. Banco Gaskets (India) Limited (BGIL) manufactures engine sealing systems (gaskets) and supplies to major auto-OEMs in India.

Diverse product offering as a group, established R&D facility and ability to quickly scale up the operations in line with requirement of the OEMs have helped BPIL in establishing strong association with multiple OEMs.

Growth in scale of operations during FY19; albeit moderation in profitability during H1FY20

TOI of BPIL registered a growth of around 13% on y-o-y basis to Rs.1,577 crore in FY19 on the back of steady demand from domestic and international markets. Company witnessed moderation in PBILDT margin by 269 bps to 11.77% during FY19 on account of increase in raw material cost and inability to pass on the increased cost to OEMs. Due to moderation in profitability and loss from discontinued business (on sale of BPIL's stake in Lake Minerals Mauritius Ltd. & Kilimanjaro Biochem Ltd.) of Rs.18.33 crore, GCA of the company reduced to Rs.102 crore during FY19 as against Rs.156 crore during FY18.

Due to continued slowdown in automobile segment, company witnessed decline in TOI by around 9% to Rs.785.16 crore during H1FY20 while PBILDT moderated further to 10.50% as against 14.66% during H1FY19. On account of these factors, its GCA also moderated to Rs.64 crore during H1FY20 as against Rs.81 crore during H1FY19.

On a standalone basis, during FY19, BPIL's TOI grew by around 19% on y-o-y basis to Rs.819.08 crore on the back of steady growth in demand from OEMs and aftermarket. During FY19, on a standalone basis, BPIL's sales to OEMs grew by 23% while aftermarket sales registered a growth of 26% on y-o-y basis. Further, PBILDT margin continued to remain healthy at 22.46% during FY19 (14.77% excluding dividend) as against 23.73% during FY18 (16.14% excluding dividend).

Comfortable capital structure & debt coverage indicators

BPIL has very comfortable capital structure marked by a low overall gearing of 0.05x as on March 31, 2019 (0.04x as on March 31, 2018) on account of low reliance on debt to meet capital expenditure as well as its working capital requirements. Debt coverage indicators, although moderated on account of reduced profitability, continued to remain comfortable with interest coverage of 43.53 times and total debt to GCA of 0.39x during FY19 as against 104.88 times and 0.22x respectively during FY18 due to its low reliance on debt.

Liquidity: Strong

Liquidity of BPIL is marked by strong accruals against negligible debt repayment obligations and availability of liquid investments to the tune of Rs.176.29 crore as on March 31, 2019 which provides strong financial flexibility. BPIL earned cash flow from operations to the tune of Rs.68.64 crore during FY19. With a gearing of 0.05 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex/working capital needs. It has unutilized bank lines of more than 90% which are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

Aluminium is the major raw material consumed by BPIL and is generally procured in equal mix from domestic and international markets. Diversified product portfolio and higher lead time in procurement of materials result in higher inventory holding. The operating cycle continued to remain long at 141 days in FY19 (140 days in FY18) mainly due to high raw material inventory holding.

The profitability of BPIL also remains susceptible to fluctuations in foreign currency exchange rates as BPIL's exports accounted for approximately 26% of total sales during the last three years ended FY19. However, BPIL enjoys natural hedge available in the form of import of raw material (BPIL's total exports in FY19 comprised 73% of its total raw material imports) which mitigates this risk to a certain extent.

High bargaining power of OEMs, which may exert pressure on profit margins of BPIL

BPIL supplies around 65% of its products to large OEMs, which have a higher bargaining power. However, BPIL's strong R&D capability, integrated manufacturing facility, ability to deliver critical components within specified schedule provides a competitive edge to BPIL over other manufacturers in the organized segment.

Dependency on the cyclical automobile industry and industrial segment leading to moderation in profitability

BPIL's revenue stream depends majorly on automobile OEMs and industrial corporates, which have witnessed cyclical trends in the past. During 8MFY20 (April – November), automobile sales witnessed the sharpest decline of 13.2% y-o-y during the last 5 years. This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. Recovery could take longer if the economic slowdown continues. On the back of slow-down in auto and other industries, PBILDT margin of BPIL has moderated from 14.45% during FY18 to 11.77% during FY19 to 10.50% during H1FY20.

Analytical Approach: Consolidated: CARE has considered consolidated financials of BPIL for its rating approach on account of business synergies with its subsidiaries which have been established to cater to a wider market or for a related diversification to complement its existing product portfolio and operate on a common management platform. List of subsidiaries considered for analysis is presented in **Annexure -3**.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1961 as a private limited company, Vadodara-based BPIL is a leading manufacturer of engine cooling modules including radiators, intercoolers as well as oil coolers for multiple industries including automobiles, agricultural & forestry equipment, locomotives, diesel engines for power generation, construction equipment and wind turbines. BPIL currently has the capacity to produce 3.33 million radiators annually spread across its five manufacturing locations. During 2010, BPIL acquired entire equity of NRF, for Euro 17.7 million. NRF, established in 1927 has a very strong presence in the European aftermarket sales for radiators and cooling systems along with a strong supply chain network and has expertise in express delivery to more than 82 countries globally. NRF, along with its subsidiaries, has manufacturing facilities across Europe for manufacturing cooling products for the automotive market, industrial, rail and marine sector.

Brief financials of BPIL (Consolidated) are tabulated below:

Brief Financials (Rs. crore) - Consolidated	FY18 (A)	FY19 (A)
Total operating income	1,396.34	1,576.65
PBILDT	201.79	185.49
PAT	116.77	69.08*
Overall gearing (times)	0.04	0.05
Interest coverage (times)	104.88	43.53

A – Audited; *PAT after adjusting for discontinued operations

As per published results for H1FY20 (consolidated), BPIL reported a PAT of Rs.45.84 crore on a TOI of Rs.785.16 crore, compared with a PAT of Rs.67.91 crore on a TOI of Rs.826.65 crore in H1FY19.

Brief financials of BPIL (Standalone) are tabulated below:

Brief Financials (Rs. crore) – Standalone	FY18 (A)	FY19 (A)
Total operating income	687.52	819.08
PBILDT	163.14	183.97
PAT	119.72	122.91
Overall gearing (times)	0.00	0.00
Interest coverage (times)	434.34	127.93

A – Audited

As per published results for H1FY20 (standalone), BPIL reported a PAT of 48.20 crore on a TOI of Rs.347.52 crore compared with a PAT of Rs.65.80 crore on a TOI of Rs.412.70 crore in H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Please refer Annexure-2

Annexure – 1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	23.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	1.50	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.50	CARE AA; Stable / CARE A1+

Annexure – 2: Rating History (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	23.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Feb-19)	1)CARE AA; Stable / CARE A1+ (23-Jan-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A1+	-	1)CARE A1+ (05-Feb-19)	1)CARE A1+ (23-Jan-18)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Feb-19)	1)CARE AA; Stable / CARE A1+ (23-Jan-18)	-

Annexure -3: List of subsidiaries of BPIL getting consolidated

Sr. No.	Particulars	% holding of BPIL as on March 31, 2019
1	Banco Gaskets (India) Limited	100%
2	Nederlandse Radiateuren Fabriek BV (NRF)	100%
3	NRF Thermal Engineering BV (Skopimax BV)	100%
4	NRF France SARL	100%
5	NRF (United Kingdom) Limited	100%
6	NRF Deutschland GMBH	100%
7	NRF Espana SA	100%
8	NRF Poland SP.z.o.o	100%
9	NRF Italia SRL	100%
10	NRF Switzerland AG	100%
11	NRF USA	100%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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