

Banco Products (India) Limited

February 05, 2019

Ratings

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 factor in its established track record in engine cooling modules catering to diversified sectors including Original Equipment Manufacturers (OEM) in automobiles, locomotives, construction equipment and agricultural equipment, strong competitive position, high level of integration in its operations, diversified product portfolio, along with long-standing association with reputed clientele across diverse end-user industries.

The ratings also take cognizance of BPIL's well-established global operations in auto ancillary segment through its foreign subsidiaries and its strong distribution network in more than 80 countries.

The ratings also favourably factor in consistent growth in its scale of operations with healthy profitability, favourable capital structure characterized by low leverage, healthy debt coverage indicators and strong liquidity marked by healthy liquid investments and cash balance.

The long term rating, is however constrained by susceptibility of BPIL's scale of operations to cyclical automobile segment (comprising around 50% of sales), demand from industrial segment and volatile order inflow from Indian Railways for its copper-brass radiators; along with thin profitability of its subsidiary Nederlandse Radiateurs Fabriek B.V. (NRF) due to challenging economic environment in Europe which may have impact on the credit profile of BPIL on a consolidated basis. The ratings are also constrained on account of vulnerability of BPIL's profitability to high bargaining power of OEMs, volatile raw material prices and foreign exchange fluctuations resulting from high inventory holding of its imported raw material, however integrated operational setup has enabled BPIL to maintain its operating margins.

BPIL's ability to increase its scale of operations and profitability while maintain low gearing levels, further diversify its clientele and product profile will be the key rating sensitivities. Any large sized debt funded capex or acquisition plans adversely impacting the leverage would also be the key credit monitorables.

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 automobiles 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 are compliant to ISO/TS 16949:2016; ISO 9001:2015 and ISO 14001:2004 certifications and 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 to developing, improvising, prototyping and testing of 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 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 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.

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

NRF is an established player in the European aftermarket segment and has a well-diversified product range with more than 8000 products in its portfolio. Around half of the sales of NRF is 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.

Stake sale in LMML and KBL

BPIL vide its announcement dated October 25, 2018 decided to exit from unrelated businesses by selling stake in its wholly owned subsidiary Lake Minerals Mauritius Limited (LMML) and its step down subsidiary Kilimanjaro Biochem Limited (KBL) to Agro Scientific Investments Limited (ASIL), Mauritius following which they would be cease to be subsidiary of BPIL. The transaction is likely to be completed on or before April 2019.

Growth in scale of operations along with healthy profitability: Total Operating Income (TOI) of the group registered a growth of 11% on y-o-y basis to Rs.1,396 crore in FY18 on the back of steady growth in demand in domestic and international markets. PBILDT margin improved by 186 bps to 14.45% during FY18 (12.59% in FY17). PAT margin remained comfortable at 8.36% during FY18 (7.75% during FY17).

On a standalone basis, during FY18, BPIL's TOI grew by around 23% in y-o-y basis to Rs.687.52 crore on the back of steady growth in demand from OEMs and aftermarket. During FY18, on a standalone basis, BPIL's sales to OEMs grew by 20% while aftermarket sales registered a growth of 19% on y-o-y basis. Further, PBILDT margin continued to remain healthy at 23.73% during FY18. As per provisional results of H1FY19 (consolidated), BPIL reported a PAT of Rs.67.91 crore on a TOI of Rs.887.66 crore, compared with a PAT of Rs.60.33 crore on a TOI of Rs.772.79 crore in H1FY18.

Strong capital structure along with comfortable debt coverage indicators: The group has a strong capital structure, marked by a low overall gearing of 0.04x as on March 31, 2018 (0.05x as on March 31, 2017) on account of low reliance on debt to meet capital expenditure as well as fund working capital requirements. Debt coverage indicators continued to remain comfortable with interest coverage of more than 100 times and total debt to GCA of just 0.22x during FY18 (0.30x during FY17).

Liquidity Analysis: Comfortable Liquidity

As on September 30, 2018, the group had liquid investments (including free cash and bank balance) worth Rs.164.47 crore (Rs.108.83 crore as on September 30, 2017) thereby providing it with a strong financial flexibility. The operating cycle remained high at 140 days in FY18 (136 days in FY17) mainly due to high raw material inventory period due to wide product portfolio and also to cater to the just-in-time requirement of its key clientele. During FY18, BPIL earned net cash flow from operating activities of Rs.120.42 crore as against Rs.114 crore in FY17. The average working capital utilization remained low at 13% during past twelve months ending December 2018.

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 market. Diversified product portfolio and higher lead time in procurement of materials result in higher inventory holding.

The profitability of BPIL also remains susceptible to fluctuations in foreign currency exchange rates as BPIL's exports sales accounted for approximately 26% of total sales during the last three years ending FY18. However, BPIL enjoys natural hedge available in the form of import of raw material (BPIL's total exports in FY18 comprised 85% 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 high 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 organised segment.

Dependency on cyclical automobile industry and industrial segment albeit end user diversification and positive outlook for auto ancillaries: BPIL's revenue stream depends majorly on automobile OEMs and industrial corporates, which have witnessed cyclical trends in the past. OEM dominates the auto component market contributing around 85 per cent of the market while the replacement market share is around 15 per cent. However, auto component industry is expected to witness growth in FY19 which will be largely driven by strong demand from OEMs. Further, end users of BPIL are well diversified amongst automobiles, industrial & earth moving equipment, Rail locomotives along with agricultural equipment, thereby mitigating this risk to a certain extent.

Analytical approach: 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 have common management platform. List of subsidiaries considered for analysis is presented in **Annexure -3**.

BPIL has announced divestment of its stake in LMML and KBL in FY19 and its impact is suitably factored in the analysis.

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. Day to day operations at NRF are managed independently from BPIL. 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 – Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,253	1,396
PBILDT	158	202
PAT	97	117
Overall gearing (times)	0.05	0.04
Interest coverage (times)	80.72	104.88

A: Audited

As per provisional results of H1FY19 (consolidated), BPIL reported a PAT of Rs.67.91 crore on a TOI of Rs.887.66 crore, compared with a PAT of Rs.60.33 crore on a TOI of Rs.772.79 crore in H1FY18.

Brief financials of BPIL are tabulated below:

Brief Financials – Standalone (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	559.56	687.52
PBILDT	142.55	163.14
PAT	109.61	119.72
Overall gearing (times)	0.00	0.00
Interest coverage (times)	353.45	434.34

A: Audited

As per provisional results of H1FY19, BPIL on a standalone basis reported a PAT of 65.80 crore on a TOI of Rs. 363.82 crore, compared with a PAT of Rs.57.56 crore on a TOI of Rs.301.72 crore in H1FY18.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	23.00	CARE AA; Stable / CARE A1+	-	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+ (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+ (23-Jan-18)	-	-

Annexure -3: List of subsidiaries of BPIL getting consolidated

Sr. No.	Particulars	% holding of BPIL
1	Banco Gaskets (India) Limited	100%
2	Lake Mineral (Mauritius) Limited (LMML)	100%
3	Kilimanjaro Biochem Limited (KBL)	100%
4	Nederlandse Radiateuren Fabriek BV (NRF)	100%
5	NRF Thermal Engineering BV (Skopimax BV)	100%
6	NRF France SARL	100%
7	NRF (United Kingdom) Limited	100%
8	NRF Handels GMBH	100%
9	NRF Deutschland GMBH	100%
10	NRF Espana SA	100%
11	NRF Poland SP.z.o.o	100%
12	NRF Italia SRL	100%
13	NRF Switzerland AG	100%
14	NRF USA	100%

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