

**Talbro Engineering Limited**  
**January 04, 2019**

**Ratings**

Instrument	Amount (Rs. crore)	Rating <sup>2</sup>	Remarks
Long-Term Bank Facilities	19.61 (reduced from 20.20)	<b>CARE A-; Stable</b> <b>(A Minus; Outlook Stable)</b>	Reaffirmed
Short-Term Bank Facilities	57.80 (enhanced from 27.80)	<b>CARE A2+</b> <b>(A Two Plus)</b>	Reaffirmed
Total	<b>77.41</b> <b>(Rupees Seventy Seven Crore and Forty One Lacs only)</b>		

\*Details of facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The ratings of the bank facilities of Talbro Engineering Ltd (TEL) continues to derive strength from consistent growth in total operating income, stable profitability margin, comfortable debt coverage indicators and working capital utilization. The ratings continues to derive comfort from experience of the promoters in the auto ancillary industry, long track record of operations, reputed client base with longstanding relationship, integrated manufacturing units and comfortable financial risk profile. However, the ratings are constrained by customer and product concentration risk, susceptibility to volatility in raw material prices and dependence on the fortunes of the cyclical auto industry.

Going forward the ability of the company to increase the scale of operations while improving profitability margins would be the key rating sensitivities. The timely completion of the expansion projects within the envisaged cost would also be important.

**Detailed description of the key rating drivers****Key Rating Strengths*****Long track record of operations with experienced and resourceful promoters***

TEL has a long track-record of operations dating back to 1980 and was earlier part of the erstwhile Talbro Group. The Talbro Group was founded in 1930s by Talwar family and has been into manufacturing of automotive components since 1957. The BNT Talbro Group is original equipment (OE) suppliers to many vehicle manufacturers in India, including passenger vehicles, commercial vehicles, trucks, buses, light-utility vehicles etc.

***Comfortable Financial Risk Profile***

The total operating income of TEL witnessed y-o-y 25.78% growth to Rs.203.97 crore in FY18 (PY: Rs.162.16 crore). The growth in total operating income is on account of expansion done, increased utilization levels and healthy order book position from OEM's. The profitability margins improved during FY18 with PBILDT margin at 10.17% in FY18 (PY: 10.11%) and PAT margin stood at 4.38% in FY18 (PY: 4.31%). During H1FY19, TEL witnessed growth of 34% in operating income to Rs. 127.49 as against Rs. 95.14 crore in H1FY18. As on 31-Mar-18, the overall gearing stood 1.04x. However, the company continued to earn cash profits (FY18: Rs 14.43 cr; P.Y: Rs. 10.63 cr). Further, the coverage ratios improved with interest coverage ratio at 6.10x.

***Reputed client base with established relationship albeit concentration risk***

TEL has an established relationship with leading auto manufacturer. TEL is the sole supplier of rear axle shafts for various models to most of its clients. The top 3 customers of the company contributed 71% of the total sales in FY18 as against 63% in FY17. TEL's total sales are further diversified with 80% (PY: 78%) sales are derived from domestic market and balance 20% (PY: 22%) sales from exports. About 90% of all axle shafts manufactured by TEL are used by Original Equipment Manufacturers (OEMs) or Tier 1 suppliers.

**Key Rating Weaknesses*****Low bargaining power with customers and susceptibility of margins to volatility in raw material prices***

Though there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on monthly basis and the change in the raw material prices are accommodated subsequently. The major raw material (Steel) cost accounts for 55%-60% of total operating income, furthermore, global prices for Steel are volatile which exposes TEL to price risk.

**Analytical approach:** Standalone

**Applicable Criteria**

CARE's Criteria on assigning Outlook to Credit Ratings

[CARE's Policy on Default Recognition](#)  
[Methodology for Short-term Instruments](#)  
[Rating Methodology-Manufacturing Companies](#)  
[CARE's methodology for financial ratios \(Non-Financial sector\)](#)

### About the Company

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 four manufacturing plants with total manufacturing capacity of 18.00 lakh axle shafts per annum as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	162.16	203.97
PBILDT	16.40	20.74
PAT	6.99	8.96
Overall gearing (times)	0.74	1.04
Interest coverage (times)	5.73	6.10

A: Audited

**Status of non-cooperation with previous CRA:** ICRA suspended the rating in September, 2016 on non-availability of the information.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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 Instruments/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-Term Loan	-	-	Apr 2022	19.61	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	57.80	CARE A-; Stable / CARE A2+

**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-Term Loan	LT	19.61	CARE A-; Stable	-	1)CARE A-; Stable (09-Feb-18)	1)CARE BBB+ (29-Nov-16)	1)CARE BBB+ (08-Mar-16)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	57.80	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (09-Feb-18)	1)CARE BBB+ / CARE A2 (29-Nov-16)	1)CARE BBB+ / CARE A2 (08-Mar-16)
3.	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (08-Mar-16)

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