Talbros Engineering Limited

February 09, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[2]	Remarks
Long-Term Bank Facilities	20.20 (Enhanced from 18.00)	**CARE A-; Stable (A Minus; Outlook Stable)**	Revised from CARE BBB+ (Triple B Plus)
Short-Term Bank Facilities	27.80 (Reduced from 30.00)	**CARE A2+ (A Two Plus)**	Revised from CARE A2 (A Two)
Total	**48.00 (Rupees Forty Eight Crores only)**		

*Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Talbros Engineering Ltd (TEL) factors in consistent growth in total operating income, profitability margin, comfortable debt coverage indicators and working capital utilization. The rating also factors in significant increase in operating income and improvement in profitability margins during H1FY18.

The ratings continue to derive strength from the experience of the promoters in the auto ancillary industry, long track record of operations, reputed client base with longstanding relationship, integrated manufacturing units, comfortable financial risk profile and partial completion of capacity enhancement. 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

Improved financial risk profile marked by growing operations with high profitability and comfortable coverage indicators coupled with improvement in H1FY18

The total operating income of TEL witnessed 15% growth to Rs.162.16 crore in FY17 (PY: Rs.141.01 crore). The growth is on account of expansion done, increased utilization levels and good order position.

The profitability margins improved during FY17- the PBILDT margin is 10.11% in FY17 (PY: 8.01%) and PAT margin is 4.31% in FY17 (PY: 2.38%). The increase in profit margins is primarily due to increase in export sales which has seen a steep increase of almost 75% with good contribution to profitability. The margins also improved on account of increase in sales realizations coupled with dip in raw material cost.

Improved H1FY18 results: The H1FY18 re-affirms the growth of the company. TEL witnessed growth of 24.44% in operating income to Rs. 95.14 as against Rs. 76.45 crores in the corresponding half year ended September 30, 2017. The PBILTD margins increased to 11.56% in H1FY18 (H1FY17 9.31%) on account of increase in export sales. TEL's export sales recorded growth of 39.85% in H1FY18 as compared to same period last year.

As on 31-Mar-17 the overall gearing remained at 0.75x (PY: 0.73x) and total debt/ GCA to 2.99x (FY16: 3.31). The increase has been on account of term loans availed for expansion of plants. However, the company continued to earn cash profits (FY17: Rs 10.63 cr; P.Y: Rs. 6.75 cr). Further, the coverage ratios improved with interest coverage ratio at 5.73x (FY16: 3.89x) and DSCR at 1.43x (PY: 1.47x).

The current ratio is moderate at 1.18 times as on March 31, 2017. TEL provides credit period of around 40-50 days to its customers and gets credit period of around 20-25 days from its suppliers. The operating cycle has increased to 60 days from 56 days due to increased inventory holding days in FY17 on account of increased production levels. The average working capital utilization is comfortable at only ~13.24% for the 12 months ended Nov-2017.

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 Talbros Group. The Talbros Group was founded in 1930s by Talwar family and has been into manufacturing of automotive components since 1957. TEL is original equipment (OE) suppliers to many vehicle manufacturers in India, including commercial vehicles, trucks, buses, light-utility vehicles etc.

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 71.31% of the total sales in FY17 as against 73.08% in FY16. TEL's total sales are further diversified with 78% (PY: 85%) sales are derived from domestic market and balance 22% (PY: 15%) 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.

Industry Prospects

In FY17, the overall Commercial Vehicles segment registered a y-o-y growth of 4.16%, Passenger Vehicles registered a y-o-y growth of 4.16% and Two-Wheelers registered a y-o-y growth of 6.89%. During 8MFY18 Commercial Vehicle segment registered growth of 10.60%, Passenger Vehicles of 8.46% and Two-Wheelers of 9.61% as compared to same period last year [Source: Society of Indian Automobile Manufacturers]. The performance of TEL is highly dependent on the market conditions and performance of the players it is associated with.

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

Talbros Engineering Ltd (TEL) originally a part of Talbros 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 three manufacturing plants. Two plants are located at Faridabad (Haryana) and one plant at Hathin (Haryana) with a total manufacturing capacity of 13.00 lakh axle shafts per annum as on March 31, 2017. The company has an integrated manufacturing plant encompassing forging, heat treatment, computerized numerical control turning, spline cutting induction hardening and its in-house die manufacturing capability. The company manufactures and sells 90% of its products to domestic Original Equipment Manufacturers (OEMs) and Tier-1 suppliers of auto components.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	141.01	162.16
PBILDT	11.30	16.40
PAT	3.37	6.99
Overall gearing (times)	0.73	0.75
Interest coverage (times)	3.89	5.73

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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 ID : 51616	-	-	Aug, 20121	20.20	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit ID : 53005	-	-	-	27.80	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan ID : 51616	LT	20.20	CARE A-; Stable	-	1)CARE BBB+ (29-Nov-16)	1)CARE BBB+ (08-Mar-16)	-
2.	Fund-based - LT/ ST-Cash Credit ID : 53005	LT/ST	27.80	CARE A-; Stable / CARE A2+	-	1)CARE BBB+ / CARE A2 (29-Nov-16)	1)CARE BBB+ / CARE A2 (08-Mar-16)	-
3.	Fund-based - ST-Term loan ID : 53006	ST	-	-	-	-	1)Withdrawn (08-Mar-16)	-

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