

**Talbro's Automotive Components Limited**

April 02, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	140.95 (enhanced from Rs. 108.96)	<b>CARE A; Stable</b> (Single A; Outlook: Stable)	<b>Revised from CARE A-; Stable</b> (Single A Minus; Outlook: Stable)
Short term Bank Facilities	45	<b>CARE A1</b> (A One)	<b>Revised from CARE A2+</b> (Single A Two Plus)
<b>Total</b>	<b>185.95</b> (Rs. One Hundred Eighty Five Crore Ninty Five Lakhs only)		
Medium Term Instrument (Fixed Deposit)	10	<b>CARE A (FD); Stable</b> [Single A (Fixed Deposit); Outlook: Stable]	<b>Revised from CARE A- (FD);</b> <b>Stable</b> [Single A Minus (Fixed Deposit); Outlook: Stable]

\* Details in Annexure I

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Talbro's Automotive Components Ltd (TACL) factors in consistent growth in total operating income, comfortable debt coverage indicators and working capital utilization. The rating also factors in significant increase in operating income and improvement in profitability margins during 9MFY19. The ratings continue to derive strength from the experience of the promoters in the auto ancillary industry, strong global partnerships, reputed and diversified clientele, long track record of operation with strong distribution network and moderate financial risk profile. The ratings, however, are constrained by working capital intensive nature of operations, cyclical nature of the automotive industry, foreign currency fluctuation risk.

Going forward, ability to increase the scale of operations with improvement in profitability margins and efficient working capital management shall remain the key rating sensitivities.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Financial risk profile with increase in sales**

During FY18, the total operating income of the group witnessed y-o-y growth of ~21% from Rs. 335.51 cr in FY17 to Rs. 404.68 cr in FY18. PBILDT margin improved to 12.98% in FY18 as against 12.54% in FY17. Capital structure of the group improved marked by an overall gearing of 0.70x as on March 31, 2018 (0.79x as on March 31, 2017). Majority of debt comprises of working capital borrowings to fund operations which is inherent in the auto ancillary industry. Further, debt coverage indicators improved further and remained comfortable marked by total debt to GCA of 3.26 times as at the end of March 31, 2018 (PY: 4.90x). The group has achieved 33% y-o-y growth in sales to Rs. 388.31 cr in 9MFY19. Further, the PBILDT margin improved to 13.45 % in 9MFY19 (9MFY18: 12.82%) primarily due to the increased volumes and successful negotiation with OEMs for passing on the increased RM cost. Gaskets sales recorded a growth of 20.48% on the basis of growth in commercial vehicles segment; also two wheeler growths remained strong during the period.

**Liquidity:** The group's current ratio was 1.01x as on March 31, 2018 (PY: 0.99x), owing to high working capital borrowings. Average CC utilization during the period February 2018 – January 2019 was 70%.

**Experienced promoters**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

TACL is the flagship company of the Talbros group. The chairman Mr Naresh Talwar is a Graduate from Delhi University, having 45 years of experience in the Automotive Components Industry. Mr. Naresh Talwar has set-up QH Talbros Limited in 1986 for manufacturing of suspension, tie-rods, and ball joints etc. He has also co-promoted T&T Motors Limited, the authorized dealers for Mercedes Benz cars in Delhi NCR. He is ably supported by Mr Umesh Talwar an MBA from XLRI, Jamshedpur, having 38 years of experience in the Automotive Components.

### ***Strong global partnerships***

The company has established relationships with global companies including Nippon Leakless Corp – (Japan), Fiat Group (Italy) and Marugo Rubber (Japan). Magneti Marelli is a subsidiary of Fiat Group since 1967 with presence across the globe. The company supplies Chassis systems, front axle and rear axle to all leading car makers in Europe, North and South America and Asia with a TOI of Rs. 108.86 cr for the period ending March 31, 2018. Marugo Rubber Industries has global operations and supplies Anti Vibration Products (Engine Mounts, Suspension Bushes, and Muffler Hangers) with a TOI of Rs. 40.89 crore for the period ending March 31, 2018. The company Nippon Leakless Corp, Japan is one of the largest players in manufacturing of gaskets in Japan and has a TOI of Rs. 117.11 crore for the period ending March 31, 2018. Through its association with such players, the group has developed strong innovation technologies, resulting in 250 products / variants launched each year.

### ***Reputed and diversified clientele***

The group is one of the leading players in manufacturing of Gaskets and heat shields with ~60% market share in India. The group caters to leading OEMs in its clientele including Hero Motorcorp limited, Maruti Suzuki India Ltd, Bajaj Auto Ltd, Tata Motors Ltd, Tata Cummins Ltd etc. The customer base is diversified with no single customer contributing more than 13% of net sales in FY18. The group also has long-standing relation with all major OEMs in India mainly on account of its design/engineering capabilities, state-of-the-art manufacturing units and robust quality control.

### ***Long track record of operation with Strong distribution network***

The group has a long track-record of operations in auto-ancillary business since 1956 and has established market position in manufacturing automotive gaskets where entry barrier is very high as gaskets form a crucial part of an engine. It supplies to engine and vehicle manufacturers in India, including trucks, buses, light-utility vehicles, passenger cars, tractors, two wheelers, and industrial and stationery diesel engines. Also, the company has strong distribution and aftermarket presence with a distribution network of over 80 exclusive outlets and over 8500 dealers as on March 31, 2018, providing it seamless penetration in micro markets across India.

### ***Key Rating Weaknesses***

#### ***Working capital intensive nature of operations***

Being in auto ancillary industry, the operations of the group are working capital intensive in nature. The group needs to maintain inventory of around 3-4 months as it manufactures 3500 varieties of gaskets for which it requires 40 types of raw materials. 40% of these raw materials are imported from Germany, US and Japan and carry 1-2 months lead time.

#### ***Foreign currency fluctuation and raw material risk***

The group is exposed to foreign currency risk for its export business. The risk is, however, mitigated to an extent as the company enters into forward contracts to minimize forex losses. Furthermore, the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex movement. Further, raw material cost accounts for around 50%-60% of total operating income, and global prices for iron and steel are volatile which expose the group to price risk. The group has decided on partial strategic disinvestment of its non-core material business assets. The same is being sold to the Indian Affiliate of M/s. Interface Performance Materials, USA. Further, Talbros has entered into a raw material sourcing agreement with them. Under this agreement, Talbros shall source various raw materials for gaskets Interface's Indian manufacturing unit.

#### ***Cyclical nature of the automotive industry***

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

**Analytical approach: Consolidated** *(The consolidated business and financial risk profiles of TACL and its joint ventures namely Nippon Leakless Talbros Pvt Ltd, Magneti Marelli Talbros Chassis Systems Pvt. Ltd and Talbros Marugo Rubber Pvt. Ltd. have been considered as these companies (together referred as 'Group') have common management and operational linkages. )*

#### Applicable criteria

[Criteria on assigning Outlook to Credit Ratings](#)  
[CARE's Policy on Default Recognition](#)  
[Rating Methodology-Manufacturing Companies](#)  
[Rating Methodology- Auto Ancillary Companies](#)  
[Financial ratios – Non-Financial Sector](#)  
[Criteria for Short Term Instruments](#)  
[Rating Methodology: Factoring Linkages in Ratings](#)

#### About the Company

Talbros Automotive Components Ltd. (TACL), the flagship manufacturing company of the Talbros Group was established in the year 1956 to manufacture Automotive & Industrial Gaskets. The company was promoted by Mr. Naresh Talwar (Non- Executive Chairman) who has an experience of more than 45 years in Automotive Components Industry. Other entities belonging to the group are Nippon Leakless Talbros Pvt Ltd (NLTPL) (40: 60 JV with Nippon Leakless Corp, Japan), Magneti Marelli Talbros Chassis Systems Pvt. Ltd (MMTCPL) (50: 50 JV with Fiat Group), Talbros Marugo Rubber Pvt. Ltd. (TMRPL) (50: 50 JV with Marugo Rubber, Japan).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	335.51	404.68
PBILD	42.08	52.52
PAT	12.22	22.90
Overall gearing (times)	0.79	0.70
Interest coverage (times)	2.65	3.77

A: Audited

#### 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](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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**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-Cash Credit	-	-	-	94.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1
Fund-based - LT-Term Loan	-	-	FY2023	46.95	CARE A; Stable
Fixed Deposit	-	-	-	10.00	CARE A (FD); Stable

**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-Cash Credit	LT	94.00	CARE A; Stable	-	1) CARE A-; Stable (28-Mar-18) 2) CARE BBB+; Stable (17-Apr-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1	-	1) CARE A2+ (28-Mar-18) 2) CARE A2 (17-Apr-17)	-	-
3.	Fund-based - LT-Term Loan	LT	46.95	CARE A; Stable	-	1) CARE A-; Stable (28-Mar-18) 2) CARE BBB+; Stable (17-Apr-17)	-	-
4.	Fixed Deposit	LT	10.00	CARE A (FD); Stable	-	1) CARE A- (FD); Stable (28-Mar-18)	-	-

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