Talbros Engineering Limited

December11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	11.72	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Negative (Single A Minus; Outlook: Negative)
Long term/Short term Bank Facilities	57.80	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Revised from CARE A-; Negative/ CARE A2+ (Single A Minus; Outlook: Negative/ A Two Plus)
Total Facilities	69.52 (Rupees Sixty Nine Crore and Fifty Two Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of bank facilities takes into account slowdown in the automobile industry impacting the sales and profitability of the company in H1FY20 and elongation of debtors and inventory days. The lower sales and profitability has led to a moderation of debt protection metrics. The ratings continue to be constrained by the relatively leveraged capital structure, customer and product concentration risk, susceptibility in volatility of raw material prices and dependence on the fortunes of the cyclical auto industry.

However, the ratings continue to derive strength from experience of the promoters in the auto ancillary industry, long track record of operations and the reputed client base with longstanding relationships, regular infusion of funds by promoters in the form of unsecured loans, increase in working capital borrowing limits by the company in view of downward spiral in the automobile industry and cushion available to the company in form of unutilized working capital limits.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT margin beyond 11% along with an increase in total operating income.
- Improvement in current Ratio above 1.3x
- Improvement in capital structure with overall gearing below 0.80x

Negative Factors

- Decline in PBILDT margins below 8% along with a decline in operating income
- Increase in Overall gearing beyond 1.5x

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with experienced 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. The BNT Talbros Group is original equipment (OE) suppliers to many vehicle manufacturers in India, including passenger vehicles, commercial vehicles, trucks, buses, light-utility vehicles etc. The key managerial personnel of TEL - Mr. Rajesh Talwar, President and Mr. Tarun Talwar, Chief Operating Officer have a vast experience in the automotive and engineering industry and are actively involved in the day-today operations of the company. The promoters have supported the company with infusion of unsecured loans which stood at Rs.11.99 crore as on September 30, 2019 (Rs.8.46 crore as on March 31, 2019).

Reputed client base with established relationship albeit with a concentration risk

TEL has an established relationship with leading auto manufacturers. Its top revenue contributors are well established players who enjoy a strong market position in the industry. 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 69% of the total sales in FY19 as against 68% in FY18, with top customer contributing to ~40% of its total sales. TEL's total sales are further diversified with ~80% (PY: 79%) sales derived from domestic market and the balance 20% (PY: 21%) from exports. The company exports to countries like Brazil and Canada as well as other geographies in North America and South America.. About 90% of all axle shafts manufactured by

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

TEL are used by Original Equipment Manufacturers (OEMs) or Tier 1 suppliers. With respect to the new capex undertaken by the company at the IMT, Faridabad plant, which is automated, the company has been able to achieve process efficiency and thus improve its operational performance.

Slowdown in automobile sector resulted in moderation in financial profile
In FY19, the total operating income of TEL witnessed y-o-y 32% growth to Rs.269.25 crore as against Rs.203.97 crore in FY18. The growth in total operating income is on account of expansion done in order to meet new orders from existing and new customers and increased utilization levels. However in H1FY20, company registered decline of 9% in total income and dip in PBILDT margin to 8.72% primarily attributable to slowdown in auto industry. Interest expenses increased in H1FY20on account of debt funded expansion undertaken by company. The debt coverage indicators moderated with an increased level of Total debt to gross cash accruals to 6.3x as on Sep 30, 2019 as against 5.46x as on March 31, 2019. Also, interest coverage declined from 3.51x for FY19 to 2.85x in H1FY20.
The collection period and inventory period elongated with delayed payments from OEMs, delay in dispatch with intermittent closure of manufacturing facilities by OEMs for a few days and a declining trend of orders from OEMs (than that indicated earlier).

Key Rating Weaknesses
Low bargaining power with customers and susceptibility of margins to volatility in raw material prices
TEL enjoys limited bargaining power with its customers. Since the major customers are auto companies/OEMs, 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.
Due to its expansion project, the company has been procuring more raw materials in order to produce more units.

Major capital expenditure completed during FY19, albeit debt funded
TEL has installed new machineries at their Faridabad plant in order to meet increased automotive components demand. The company undertook expansion work at a total cost of ~Rs.28 crore. The total capex includes ~Rs.12 crore and ~Rs.16 crore at Sector-4, Faridabad and IMT, Faridabad respectively. The total capex for the above projects and other maintenance capex incurred in FY19 were primarily funded through a total debt of Rs.21 crore (loan from NBFC) and the balance through internal accruals. As a result, the overall gearing deteriorated to 1.23x as on March 31, 2019 as against 0.88x as on March 31, 2018. TEL's capex in FY19 is complete and led to increase in installed capacity to 21 lakhs units in FY19 (PY: 18 lakhs). In H1FY20, the company incurred a further capex of Rs.11 crore for automation of machinery. The capacity utilization stood at a high of 91.80% in FY19. Capacity utilization has come down thereafter to 77% in Q1FY20, 70% in Q2FY20 on the back of expanded capacities.

Liquidity : Adequate
Although debt coverage indicators have been deteriorated, however, there is cushion available in form of unutilized working capital limits. The average working capital utilization for last 12 months ending October 2019 is moderate at 75%. The company has also increased working capital limits by Rs.5 crore in Sep 2019. Liquidity is marked by tightly matched accruals to repayment obligations in FY20 and modest cash balance.

Analytical approach: Standalone

Applicable Criteria
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology – Auto Ancillary 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 five manufacturing plants with total manufacturing capacity of 21 lakhs axle shafts per annum as on March 31, 2019. The company manufactures and sells 90% of its products to domestic Original Equipment Manufacturers (OEMs) and Tier-1 suppliers of auto components.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	203.97	269.25
PBILDT	20.74	23.94
PAT	8.96	7.20
Overall gearing (times)	0.88	1.23
Interest coverage (times)	6.10	3.51

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

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	-	-	April 2022	11.72	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	57.80	CARE BBB+; 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 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-Term Loan	LT	11.72	CARE BBB+; Stable	1)CARE A-; Negative (02-Aug-19)	1)CARE A-; Stable (04-Jan-19)	1)CARE A-; Stable (09-Feb-18)	1)CARE BBB+ (29-Nov-16)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	57.80	CARE BBB+; Stable / CARE A2	1)CARE A-; Negative / CARE A2+ (02-Aug-19)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)	1)CARE A-; Stable / CARE A2+ (09-Feb-18)	1)CARE BBB+ / CARE A2 (29-Nov-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
Financial covenants	
As per sanction letter of the bank, 'all unsecured loans/ deposits from promoters and related parties as on 31 March, 2019 to the extent of Rs. 12 crore shall stay subordinated to bank loans and to remain invested in business during the tenure of facilities'.	Unsecured loans from promoters as on 31-March-2019 stood at Rs.8.46 crore and has been treated as quasi-equity and considered in the net worth of the company as per CARE's policy.
Non financial covenants - None	

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:
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