



Talbro's Automotive
Components Ltd.

www.talbro's.com

April 3, 2019

The Bombay Stock Exchange Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort Mumbai – 400 001	The National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
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Company Code: 505160/ TALBROAUTO

Sub: Intimation of Revision in Credit Rating

Dear Sir/ Madam,

Pursuant to Regulation 30(6) read with Schedule III of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, we would like to inform you that based on Care Rating Limited (Credit Rating Agency) letter dated 2nd April, 2019, the Company's Credit Rating has been revised.

The letter from Care Rating Limited covering the rationale for revision in credit rating is attached herewith.

This is for your information & records.

Thanking You.

Yours Sincerely

For Talbro's Automotive Components Limited


Seema Narang
Company Secretary

Encl: As above

Mr. Navin Juneja

Group CFO

Talbro's Automotives Components Limited

14/1, Delhi Mathura Road,

Faridabad

April 02, 2019

Dear Sir,

Credit rating of bank facilities

Please refer to our letter dated March 29, 2019 on the above subject.

2. The rationale for the ratings is attached as an **Appendix-I**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 03, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



Shivangi Sharma

Deputy Manager

shivangi.sharma@careratings.com



Manek Narang

Associate Director

manek.narang@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. 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.

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CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

Appendix 1
Rating Rationale
Talbro's Automotive Components Limited

Ratings

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

Going forward, ability of the group to increase the scale of operations with further 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. Revenue growth in the group was led by higher sales of gaskets and addition of new customers from European market. PBILDT margin improved to 12.98% in FY18 as against 12.54% in FY17. Capital

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

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. 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

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 relationships 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 its 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.

Industry Scenario

Indian Auto Component industry has experienced growth over the last few years. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment, increase in FDI, reduced dependency on imports by domestic OEM's and return of adequate liquidity in the financial system. The industry is transforming itself from a low-volume, highly fragmented one into a competitive industry backed by strengths like technology, efficiency and evolving value chain. The industry mainly caters to 2 segments – OEM & Replacement (Aftermarket). OEM dominates the auto component market contributing around 80% while the replacement market share is 20%.

CARE expects the auto industry to continue to witness y-o-y healthy demand. Demand is expected to improve on account of higher GDP growth, good monsoon, higher disposable income, and higher farm incomes.

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).

Financial Performance (Consolidated)

	(Rs. Crore)		
For the period ended / as at Mar.31,	2016 (12m, A)	2017 (12m, A)	2018 (12m, A)
Working Results			
Total Operating income	397.50	335.51	404.68
PBILDT	48.86	42.08	52.52
Interest	17.69	15.91	13.94
Depreciation	15.31	12.31	14.19
PBT	14.19	14.37	28.06
PAT (after deferred tax)	9.71	12.22	22.90
Gross Cash Accruals	27.06	24.76	38.14
Financial Position			
Equity Share Capital	12.35	12.35	12.35
Networth	137.63	154.39	178.08
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	0.13	NM	20.62
Growth in PAT (after D.Tax) (%)	(31.21)	NM	87.30
<i>Profitability</i>			
PBILDT/Total Op. income (%)	12.29	12.54	12.98
PAT (after deferred tax)/ Total income (%)	2.44	3.64	5.66
ROCE (%)	11.98	11.02	13.26
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.19	0.16	0.13
Overall Gearing ratio (incl acceptances)	0.92	0.79	0.70
Interest coverage (PBILDT/Interest)	2.76	2.65	3.77
Term Debt/ Gross Cash Accruals	0.96	0.99	0.59
Total debt/Gross cash accruals(years)	4.69	4.90	3.26
<i>Liquidity</i>			
Current ratio(times)	0.98	0.99	1.01
Quick ratio(times)	0.50	0.54	0.60
<i>Turnover</i>			
Average collection period (days)	72	94	96
Average creditors (days)	79	113	119
Average inventory (days)	121	111	108
Operating cycle (days)	114	92	85

A: Audited

Note: The P&L figures of FY16 are as per I-GAAP and FY17 and FY18 figures are as per IND AS. FY18 is the first year of adoption of IND AS. The balance sheet figures in FY16 are also reinstated as per IND AS.

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. 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-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)	-	-

Annexure 3: Details of Rated Facilities

1. Long-term facilities

1.A. Rupee Term Loans

(Rs. crore)

Sr. No.	Name of Bank	Rated Amount	Remarks	Remarks
1	IDFC Bank	2.58	Outstanding	-
2	IDFC Bank	16.00	Outstanding	-
3	Bajaj Finance Ltd	0.15	Outstanding	-
4	Bajaj Finance Ltd	13.22	Outstanding	-
5	Bajaj Finance Ltd	5.00	Outstanding	-
6	Kotak Mahindra Bank	10.00	Outstanding	-
	Total	46.95		

1.B. Fund Based limits**(Rs. crore)**

S. No.	Name of Bank	Fund Based Limits		
		CC*	Others	Total fund-based limits
	IDFC Bank	15.00	-	15.00
	Yes Bank	19.00	-	19.00
	DBS Bank	20.00	-	20.00
	HDFC Bank	40.00	-	40.00
	Total	94.00	-	94.00

2. Short-term facilities**2.A. Non fund based limits****(Rs. crore)**

Sr. No.	Name of Bank	Nature of Facility	Rated amount
1	IDFC Bank	LC/BG	10.00
2	Yes Bank	LC/BG	25.00
3	HDFC Bank	LC/BG	10.00
	TOTAL		45.00

LC=Letter of credit; BG=Bank guarantee

Total bank facilities (rated): Rs.185.95 crore**(This follows our brief rationale for entity published April 02, 2019)****Disclaimer**

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