

Bosch Rexroth (India) Private Limited

March 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund-Based Limits - Overdraft limits	30.00	30.00	[ICRA]AA (Stable); Reaffirmed
Long Term Non Fund-Based Limits - Bank Guarantee	40.00	40.00	[ICRA]AA (Stable); Reaffirmed
Short Term Fund-Based Limits	(20.00)^	(20.00)^	[ICRA]A1+; Reaffirmed
Total	70.00	70.00	

* Instrument details are provided in Annexure 1, ^Sub-limit of long term fund based limits

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) on the Rs. 30-crore¹ long-term fund-based limits and the Rs. 40.00-crore long-term non-fund based limits of Bosch Rexroth (India) Private Limited (BRPL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 20.00-crore non-fund based limits (sub-limit of long-term fund-based limits) of BRPL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings continue to take into account the strong parentage of BRPL, the operational and financial support from Bosch Group, which is among the leading participants in the global auto-ancillary industry and hydraulic components, the sustained improvement in scale emanating from the established position of the company in the domestic market for industrial and mobile hydraulic solutions and its reputed customer profile across various industries. The ratings also favourably factor in the demonstrated financial support from the Group, in the form of substantial inter-corporate loans from Bosch Limited (fellow subsidiary, with a strong financial position) and these borrowings backed by the guarantee provided by Robert Bosch GmbH (ultimate holding company). Further, the overall liquidity position of the company remains adequate, as evident from significant undrawn line of credit.

The ratings, however, are constrained by vulnerability of margins to pricing arrangement with its global group entities, which remains its major supplier, wherein the margins for BRPL have posted a sharp dip on account of revision in transfer pricing norms in FY2017. Nevertheless, ICRA notes that these arrangements are reviewed on a timely manner, since almost the entire debt on the books of company is from Bosch Group companies, with flexible repayment schedule, the cash flow position continues to remain comfortable. The ratings also takes into account vulnerability of the company's sales to cycles of capital expenditure across industries, increasing competitive pressures and susceptibility of operating profitability to any adverse fluctuations in the cost of basic raw materials, as well as to foreign exchange fluctuation risk related to imported raw materials and bought-out items.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes BRPL will continue to benefit from the strong parentage and established market position in both industrial and mobile hydraulics. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash flows are lower than expected, or if any major debt-funded capital expenditure or stretch in the working capital cycle, which impacts the liquidity profile materially.

Key rating drivers

Credit strengths

Strong parentage and established market position - BRPL has an established market position as the leading manufacturer of hydraulic equipment in India. Bosch Rexroth AG holds 80% equity stake in BRPL and it is among the leading participants in the global industrial and mobile hydraulic components. Bosch Rexroth AG is a 100% subsidiary of Robert Bosch GmbH. Thus BRPL derives benefits from its parent, Bosch Rexroth AG, and ultimately Robert Bosch GmbH, allowing it access to the latest technology and strong financial support as demonstrated in the past.

Diversified and reputed customer profile - BRPL offers a wide range of industrial and mobile hydraulic components, electric drive and control solutions, linear motion and assembly technologies. BRPL has a diversified and reputed customer profile, with its top 10 customers contributing ~20-30% of its total sales. It caters to various industries including construction/heavy earth moving/material handling equipment manufacturing companies, auto companies, plastic machinery manufacturing companies, steel/metallurgy/mining industries, etc. Wide product profile and diversified and reputed customer base de-risks the business to a large extent.

Healthy financial risk profile, supported by superior financial flexibility – The operating income of the company grew by ~9% in FY2017 on a YoY basis and it is expected to further increase by ~16% in FY2018, supported by increase in order inflow following growth in the construction and manufacturing activity in the domestic market. The financial risk profile is supported by the strong net-worth base of ~Rs. 270.53 crore and gearing of 1.07 times as on March 31, 2017. In addition, almost the entire debt in the books of BRPL is from Bosch Limited (fellow subsidiary), which has a strong financial position as reflected by its near debt-free status and healthy profitability indicators. Thus, BRPL's low dependence on bank borrowing and access to inter corporate loans from the Group with flexible repayment terms provide comfort from the credit perspective. Moreover, BRPL derives comfort from the strong financial position of Robert Bosch GmbH (ultimate holding company), as reflected in its turnover of ~€ 73.12 billion and TD/Net-worth of 0.16 time in CY2016. Robert Bosch GmbH has provided a guarantee on inter-corporate loans availed by BRPL from Bosch Limited. Further, the overall liquidity position of the company also remains adequate, as evident from undrawn line of credit of Rs. 65 crore as on December 31, 2017.

Credit challenges

Vulnerability in profit margins – BRPL has been importing about 50-60% of its raw material consumed during the last three years. In addition, about ~55-60% of the total sales during 15M FY2015, FY2016 and FY2017 consisted of traded goods, which are mainly imported from the Bosch Group. The operating profitability declined significantly during FY2017 on account of increase in raw material/traded goods procurement cost from the Group, because of the revised transfer pricing arrangement. The operating margins declined to 8.08% in FY2017 as compared to 14.95% during FY2016. Correspondingly, the return indicators and debt protection metrics moderated for FY2017.

High working capital intensity of operations – The working capital intensity for the company has remained high in the past as reflected by NWC/OI of ~27% for FY2017, because of a long receivable cycle and high inventory requirements. The normal credit period allowed to dealers is 30 days, for direct customers it ranges between 60-90 days. The inventory days are higher because of a wide range of products and the bulk of the requirement is imported and hence needs to maintain adequate stocks

Susceptibility of profitability to fluctuation in raw material prices and foreign exchange rates – The prices of BRPL’s major raw material, i.e., steel and castings witnessed a high level of price volatility in the past. Moreover, given the fixed price nature of most of its contracts with its customers, the company’s profitability remains exposed to price risk in case of adverse movements in raw material prices. The profit margins are also exposed to steep forex rate fluctuations, due to the large portion of traded goods/raw material imports and the absence of hedging policies.

Analytical approach: While arriving at the ratings, ICRA has factored in support from the Bosch Group. As a subsidiary of Bosch Rexroth AG (80% holding, which is a 100% subsidiary of Robert Bosch GmbH), BRPL will derive significant financial, operational and management benefits due to its strong linkages with its parent.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer’s Credit Rating](#)

About the company:

Bosch Rexroth (India) Private Limited (BRPL) manufactures hydraulic valves, pumps, blocks, cylinders and power units in its Ahmedabad-based unit. It also has an assembly unit in Bangalore. BRPL is a comprehensive provider of drive and control solutions through hydraulics, electric drive and controls, linear motion and assembly technologies. These technologies are used across industries by companies as varied as construction/heavy earth moving/material handling equipment manufacturing companies, auto companies, plastic machinery manufacturing companies and machinery manufacturers/suppliers to the steel/metallurgy/mining industries. BRPL is a subsidiary of Bosch Rexroth AG (80% holding), which is a 100% subsidiary of Robert Bosch GmbH.

Key financial indicators

	FY 2016	FY 2017
Operating Income (Rs. crore)	833.73	909.31
PAT (Rs. crore)	46.04	19.07
OPBDIT/ OI (%)	14.95%	8.08%
Total Debt/ TNW (times)	1.09	1.07
Total Debt/ OPBDIT (times)	2.21	3.95
Interest coverage (times)	3.68	2.49
NWC/ OI (%)	33%	27%

Source: BRPL financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 April 2015	Date & Rating in FY2015 April 2014
1	Long Term Fund-Based Limits - Overdraft limits	30.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long Term Non Fund-Based Limits - Bank Guarantee	40.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Short Term Fund-Based Limits	(20.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Fund-Based Limits - Overdraft limits	NA	NA	NA	30.00	[ICRA]AA (Stable)
NA	Long Term Non Fund-Based Limits - Bank Guarantee	NA	NA	NA	40.00	[ICRA]AA (Stable)
NA	Short Term Fund-Based Limits	NA	NA	NA	(20.00)	[ICRA]A1+

Source: Sanction letter of Bosch Rexroth (India) Private Limited

ANALYST CONTACTS

Mr. K.Ravichandran
+91-44-4596-4301
ravichandran@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Suprio Banerjee
+91 022 6114 3443
supriob@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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