

June 28, 2019

Bosch Rexroth (India) Private Limited: Ratings reaffirmed at [ICRA]AA(Stable)/A1+

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

Rationale

The reaffirmation of the ratings continues to take into account the strong parentage of BRPL; the operational and financial support from the Bosch Group, which is among the leading participants in the global auto-ancillary and hydraulic component industry; the sustained improvement in scale by virtue of the company's established position in the domestic market for industrial and mobile hydraulic solutions; and its reputed customers 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). The loans have flexible repayment terms, which provide comfort from the credit perspective. The inter-corporate loans are backed by a guarantee from Robert Bosch GmbH (ultimate holding company).

The ratings, however, are constrained by the vulnerability of margins to pricing arrangement with its global group entities, which remain its major suppliers, and the adverse currency movements because of the absence of hedging policy. Further, the provisions related to closure of manufacturing operations at Bangalore unit exerted pressure on margins in FY2018, which declined significantly on YoY basis. Nevertheless, ICRA notes that the pricing arrangements are reviewed on regular intervals, following which margins witnessed sharp recovery in FY2019 (estimated OPM of ~12% in FY2019 vis a vis ~3.6% in FY2018). The ratings also take into account the vulnerability of the company's sales to capital expenditure cycles across industries and the increase in competitive pressure.

Outlook: Stable

ICRA believes BRPL will continue to benefit from the strong parentage and its 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 strengthen the financial risk profile. The outlook may be revised to Negative if cash flows are lower than expected, or cessation of financial support or withdrawal of loan from Group companies or stretch in the working capital cycle 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 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's strong parentage. i.e., Bosch Rexroth AG, and ultimately Robert Bosch GmbH, allows it to access the latest technology and funds, 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 ~30% to its total sales. It caters to various industries, including construction, heavy earth moving, material handling equipment manufacturing companies, auto companies, plastic machinery manufacturing companies, and industries involved in steel, metallurgy, and mining industries. Wide product profile and diversified and reputed customer base de-risk the business to a significant extent.

Healthy financial risk profile – BRPL's revenue grew by ~22% in FY2019 on a YoY basis, supported by increase in order inflow, following growth in the construction and manufacturing activity in the domestic market as well as improvement in export sales. The financial risk profile is supported by the strong net worth base, estimated gearing of ~0.9 times as on March 31, 2019 (~1.2 times as on March 31, 2018) and above average debt coverage indicators. In addition, almost the entire debt in the books of BRPL is from Bosch Limited (fellow subsidiary) in the form of inter-corporate loans, backed by guarantee from Robert Bosch GmbH (ultimate holding company). 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.

Credit challenges

Vulnerability in profit margins – BRPL has been importing about 50-60% of its raw material requirement during the last three years. In addition, about ~60-70% of the total sales over FY2017-FY2019 consisted of traded goods, which are mainly imported from the Bosch Group entities. Thus, margins remain vulnerable to pricing arrangement with its global group entities, which remain its major suppliers, and to the adverse currency movements because of the absence of hedging policy. Further, the one-time provisions related to closure of manufacturing operations at Bangalore unit exerted pressure on operating margins (OPM) in FY2018, which declined significantly to ~3.6% from ~8.5% in FY2017. Nevertheless, ICRA notes that the pricing arrangements are reviewed on regular intervals, following which OPM witnessed sharp recovery in FY2019 (estimated OPM of ~11-12% in FY2019). Correspondingly, the net margin also improved in FY2019 as against losses reported in FY2018.

High working capital intensity of operations – The company's working capital intensity has remained high in the past, as reflected by NWC/OI of ~25%, because of a long receivable cycle and high inventory requirements. The normal credit period allowed to dealers is 30 days, whereas, for direct customers it ranges between 60 and 90 days. Wide product range, import dependence and the need to maintain adequate stock have resulted in high inventory days. The working capital requirements are partly supported by the extended credit period of up to ~120 days on purchases from Group entities.

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, have witnessed a high price volatility. 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 as large portion of traded goods/ raw materials are imported. The risk is exacerbated by the absence of hedging policies.

Liquidity position:

The overall liquidity position remains comfortable with Rs. 65 crore of undrawn line of credit and Rs. ~20 crore cash and bank balance as on March 31, 2019. Moreover, strong parentage and financial support from Group entities in the form of inter-corporate loans and extended credit period support the company's liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	While arriving at the ratings, ICRA has factored in the support from the Bosch Group. As a subsidiary of Bosch Rexroth AG (80% holding, which is a 100% subsidiary of Robert Bosch GmbH), BRPL derives significant financial, operational and management benefits because of its strong links with its parent.
Consolidation / Standalone	Standalone

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 including 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, auto, plastic machinery manufacturers, machinery manufacturers and suppliers to 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 (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	909.3	961.1
PAT (Rs. crore)	20.9	-12.3
OPBDIT/ OI (%)	8.5%	3.6%
RoCE (%)	11.6%	1.4%
Total Debt/ TNW (times)	1.07	1.22
Total Debt/ OPBDIT (times)	3.8	8.5
Interest coverage (times)	2.5	1.2
NWC/ OI (%)	26%	23%

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 (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in	Date & Rating in	Date & Rating in	
					FY2018 March 2018	FY2017 January 2017	FY2016 April 2015	
1	Overdraft limits	30.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	
2	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	Overdraft limits	NA	NA	NA	30.00	[ICRA]AA (Stable)
NA	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

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