

April 06, 2023

## India Motor Parts & Accessories Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*                       | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                             |
|-----------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term fund-based              | 60.00                                | 70.00                               | [ICRA]AA (Stable);<br>reaffirmed/assigned |
| Short-term fund based (sub limit) | (60.00)                              | (60.00)                             | [ICRA]A1+; reaffirmed                     |
| <b>Total</b>                      | <b>60.00</b>                         | <b>70.00</b>                        |   |

\*Instrument details are provided in Annexure-1;

### Rationale

The reaffirmation in ratings outstanding on the bank lines of India Motor Parts and Accessories Limited (IMPAL) considers ICRA's expectation of a sustained financial performance by the company aided by its established presence in the automotive spare parts and accessories distribution space, and its strong liquidity position. The company has been a pan-India aftermarket player for the last several decades and operates with more than 18,000 dealers. IMPAL caters to a wide range of products including brake systems, steering linkages, fasteners, power train components, engine parts and lubricants, to name a few, for over 40 auto component manufacturers. The T S Santhanam Group (a faction of the larger TVS Group of companies) owns 30.71% stake in the company, with 21.87% stake held by Trichur Sundaram Santhanam & Family Private Limited (as on December 31, 2022). Although IMPAL does not require financial support, it enjoys strong financial and operational flexibility as part of the T S Santhanam Group.

The company has remained net debt negative for the last several years, achieved on the back of prudent working capital management and limited capex due to its asset-light strategy. IMPAL had cash/bank balances and liquid investments of Rs. 65.2 crore. In addition, it had Rs. 112.7 crore in mutual funds with tenor more than a year, as on December 31, 2022. Further, it has long-term investments in other TVS Group companies, fair valued at Rs. 1,134.2 crore as on December 31, 2022. The company is open to long-term investments in other Group entities. Nevertheless, the company is expected to remain net debt negative over the medium term with sizeable cash and bank balances and liquid investments.

IMPAL is a moderate-scaled player with an operating income of Rs. 646.1 crore in FY2022 and Rs. 556.1 crore for 9M FY2023. Also, its sizeable dependence on commercial vehicle (CV) spares exposes the company to the inherent cyclicality in CV aftermarket component sales (linked to economic cycles). Further, IMPAL's limited value addition due to its trading nature of operations and intense competition restrict its pricing flexibility. The company reported an operating margin of 8.1% in 9M FY2023. Its return on capital employed (RoCE) was low at 5.1% for FY2022, although upon adjusting net worth for fair value of investments, the same was higher at 14.8% for FY2022.

### Key rating drivers and their description

#### Credit strengths

**Established relationships with auto component suppliers; diversified product profile and pan-India presence with well-entrenched distribution network** – IMPAL is an established automotive spare parts and accessories distributor with pan-India presence and a network of more than 80 branches and 18,000 dealers. IMPAL's product portfolio is diverse, consisting of brake systems, steering linkages, fasteners, power train components, engine parts and lubricants, to name a few. The company caters to products from more than 40 auto component manufacturers including Brakes India Private Limited, Rane (Madras) Limited, Sundram Fasteners Limited and ZF Commercial Vehicle Control Systems India Limited (erstwhile Wabco India Limited).

**Significant cash and liquid investments and market value of long-term investments; negligible utilisation of working capital lines over the last several years** – IMPAL remained net debt negative as on December 31, 2022 with cash and bank balances and liquid investments of Rs. 65.2 crore and undrawn working capital limits of Rs. 70.0 crore. It has had negligible utilisation of its working capital lines in the past several years. In addition to this, it had Rs. 112.7 crore parked in mutual funds with tenor more than a year, as on December 31, 2022, and long-term investments in other TVS Group companies, fair valued at Rs. 1,134.2 crore as on December 31, 2022. Being an asset-light company, IMPAL's capex is expected to remain negligible over the medium term, akin to past trends. ICRA expects the company to remain net debt negative over the medium term, with sizeable cash balance/liquid investments and non-current investments.

**Financial and operational flexibility as part of the T S Santhanam Group** – IMPAL enjoys strong operational and financial flexibility as part of the T S Santhanam Group (a faction of the larger TVS Group of companies – an established name in the domestic auto ancillary industry). The promoters own 30.71% stake in the company, with 21.87% stake held by Trichur Sundaram Santhanam & Family Private Limited as on December 31, 2022. Apart from this, Sundaram Finance Holdings Limited also held 20.0% stake in the company as on December 31, 2022.

### Credit challenges

**Trading nature of operations and stiff competition limit pricing flexibility** – IMPAL's revenues remain moderate at sub Rs. 700 crore. For 9M FY2023, the company's revenues stood at Rs. 556.1 crore (as against Rs. 469.2 crore in 9M FY2022, a YoY growth of 18.5%). Apart from growth in underlying demand, low base and commodity pass-through also contributed to the topline. Its value addition to products remains limited, given its trading nature of operations. Further, akin to other players in the automobile spares distribution business, the company witnesses intense competition from original equipment spares (OES) and other organised and unorganised distributors/dealers, which restricts IMPAL's pricing flexibility and margins. The company reported an operating margin of 8.1% in 9M FY2023. Its return on capital employed (RoCE) was low at 5.1% for FY2022, although upon adjusting net worth for fair value of investments, the same was higher at 14.8% for FY2022.

**Sizeable dependence on the commercial vehicle segment** – CV spares contributed close to 60% of IMPAL's overall sales in 9M FY2023. This exposes the company to the inherent cyclicity in CV aftermarket component sales (linked to economic cycles). While the increasing proportion of revenues from passenger vehicles (PV), tractor and other consumables mitigates the risk to an extent, IMPAL's revenues remain susceptible to the overall industry slowdown, akin to that witnessed in FY2020 and FY2021.

### Environmental and Social Risks

**Environmental considerations** – The company, being a distributor, remains indirectly exposed to climate-transition and regulatory risks by virtue of its suppliers remaining exposed to the same, as automotive OEMs migrate to alternate powertrains. Further, IMPAL's branches and warehouses are exposed to natural disasters (like hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of adequate insurance acts as a safeguard in these circumstances.

**Social considerations** – While IMPAL is dependent on its suppliers for providing quality products to serve customers with minimal product recalls or quality failures, history of no major quality issues/product recalls provides comfort. The company's revenues are also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles (EVs), scrappage policy and higher replacement of vehicles, and societal trends like preference for ride-sharing.

## Liquidity position: Strong

IMPAL's liquidity is strong with healthy cash flow from operations, cash and bank balances and liquid investments of Rs. 65.2 crore and undrawn working capital limits of Rs. 70.0 crore as on December 31, 2022. In addition to this, it had Rs. 112.7 crore in mutual funds with tenor more than a year, as on December 31, 2022. In relation to these sources of cash, IMPAL has only negligible capex commitment for FY2022 (to be funded by internal accruals) and no debt repayments. Overall, ICRA expects IMPAL to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash/liquid investments surplus.

## Rating sensitivities

**Positive factors** – ICRA could upgrade IMPAL's ratings if it achieves material improvement in its scale of operations and profit margins on a sustained basis while maintaining its strong credit profile.

**Negative factors** – Negative pressure on IMPAL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt on sustained basis, with net debt/OPBDITA greater than 1.5 times.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology – Auto Component Suppliers</a>     |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | The ratings are based on the consolidated financial profile of the company. Details of subsidiary provided in Annexure-2 |

## About the company

India Motor Parts and Accessories Limited (IMPAL) is a leading player in the distribution of automotive spare parts and accessories in India. The company currently distributes a wide range of spares and accessories including braking systems, fasteners, steering linkages and engine components among others for several auto component manufacturers. IMPAL operates pan India and has a network of more than 80 branches and 18,000 active dealers. The company is part of T S Santhanam Group Limited (a faction of the larger TVS Group of Companies). The promoters own 30.71% stake in the company, with 21.87% stake held by Trichur Sundaram Santhanam & Family Private Limited (as on December 31, 2022). Apart from this, Sundaram Finance Holdings Limited also held 20.0% stake in the company as on December 31, 2022.

## Key financial indicators (audited)

| Consolidated   | FY2021 | FY2022 |
|--|--------|--------|
| Operating income                                     | 531.5  | 646.1  |
| PAT  | 51.2   | 57.5   |
| OPBDIT/OI  | 8.5%   | 9.1%   |
| PAT/OI   | 9.6%   | 8.9%   |
| Total outside liabilities/Tangible net worth (times) | 0.1    | 0.1    |
| Total debt/OPBDIT (times)                            | 0.0    | 0.1    |
| Interest coverage (times)                            | 197.4  | 365.8  |

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Instrument                              | Type       | Current rating (FY2024)  |   | Chronology of rating history for the past 3 years |                         |                         |                         |
|---|------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|   |            | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2022 (Rs. crore) | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|   |            |                          |   | Apr 06, 2023                                      | May 19, 2022            | Apr 09, 2021            | -                       |
| 1 Fund-based facilities                 | Long Term  | 70.00                    | -   | [ICRA]AA (Stable)                                 | [ICRA]AA (Stable)       | [ICRA]AA (Stable)       | -                       |
| 2 Non-Fund based facilities             | Long Term  | -                        | -   | -   | -                       | [ICRA]AA (Stable)       | -                       |
| 3 Fund-based facilities (sub limit)     | Short Term | (60.00)                  | -   | [ICRA]A1+   | [ICRA]A1+               | -                       | -                       |
| 4 Non-Fund based facilities (sub limit) | Short term | -                        | -   | -   | -                       | [ICRA]A1+               | -                       |

### Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|---|----------------------|
| Long-term Fund-based – Cash Credit                                  | Simple               |
| Short -term – Fund Based Working Capital (sub-limit of cash credit) | Simple               |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name                   | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA   | Long-term fund based              | NA               | NA          | NA       | 70.00                    | [ICRA]AA (Stable)          |
| NA   | Short-term fund based (sub limit) | NA               | NA          | NA       | (60.00)                  | [ICRA]A1+                  |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

| Company Name                             | Ownership | Consolidation Approach |
|--|-----------|------------------------|
| CAPL Motors Private Limited – Subsidiary | 100.00%   | Full Consolidation     |

Source: Company

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