

March 02, 2023

The Associated Auto Parts Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Cash Credit	4.00	4.00	[ICRA]A+(Stable); reaffirmed
Total	4.00	4.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in the strong operational track record of The Associated Auto Parts Private Limited (TAAPPL) of several decades and its strong parentage with the TVS Rajam Group, holding 76% stake in it through its subsidiary, TVS Mobility Private Limited (TVS Mobility), earlier held by TV Sundram Iyengar & Sons Private Limited (TVS Sons). ICRA notes while the profile of the parent entity has changed to some extent, there are no changes in the linkages between TAAPPL and its parent. Moreover, TAAPPL's performance in FY2022 and FY2023 has remained in line with ICRA's expectations. TAAPPL revenue of Rs. 114.2 crore in FY2022 (Rs. 96.4 crore in FY2021), which is estimated to grow to around Rs. 130 crore in FY2023, aided by stable demand in the industry. The rating also considers TAAPPL's established supplier network of major auto component dealers lending stability to its operations, its diversified product portfolio and wide customer base in the aftermarket segment. The company's financial profile remains healthy, as characterised by its comfortable capitalisation along with an adequate liquidity position.

The rating is, however, constrained by TAAPPL's moderate scale of operations with its geographical presence limited to only four Indian states. However, the concentration of the same has moderated to some extent in recent years aided by diversification of its supplier and customer bases. Moreover, the company is venturing into the Rajasthan market, wherein considerable revenue scale up is expected to result in some diversification of the geographical concentration. The company also faces high competitive pressures from several independent, aftermarket distributors in the industry, which coupled with the trading nature of the business, limits profitability to an extent. Moreover, given that the company's earnings are mainly driven by the automotive industry, particularly the commercial vehicle (CV) segment, it remains susceptible to the inherent cyclicity in the industry.

The Stable outlook on the rating reflects ICRA's opinion that TAAPPL will continue to report steady revenue growth and stable earnings profile with minimum reliance on debt, enabling it to maintain its comfortable coverage metrics and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Strong parentage with TVS Mobility holding controlling stake in company – As part of the internal restructuring of various entities of the TVS Group, TAAPPL's parent entity has changed to TVS Mobility from TVS Sons, holding a controlling stake of 76% as on December 31, 2022. While the profile of the parent entity has changed to some extent, there are no changes in the linkages between TAAPPL and its parent. TAAPPL continues to benefit from the strong financial flexibility from its parentage and business linkages, wherein majority of the traded products are procured from TVS Group companies.

Established relationship with all major auto component manufacturers and a diversified customer base – TAAPPL's vendor base consists of reputed component manufacturers such as Rane (Madras) Limited and Wabco India Limited, along with TVS Group companies like Brakes India Private Limited, Sundaram Brake Lining Limited, Sundram Fasteners Limited and Wheels

India Limited, among others. Despite the company not entering into long-term contracts with most of its suppliers, the established relationships with them ensure healthy share of business and revenue visibility. The company's customer base includes a vast majority of retailers, wholesalers, fleet owners, state transport undertakings and vehicle dealers, thereby significantly lowering the customer concentration risk.

Diversified product profile apart from brakes systems – TAAPPL's product mix is categorised into spare parts and commodity parts, which contribute 70% and 30% share to total revenues in FY2022, respectively. Further, the product portfolio includes large number of components that find application in the automobile sector, particularly in the CV segment. The company procures genuine auto components such as brakes/brake systems, spare parts, fluids, clutch plates, etc, from original equipment suppliers and distributes them through its branch network for resale to end-consumers. The company's product profile has remained diversified, with brake parts driving ~42% and ~40% of its total revenues in 8M FY2023 and FY2022, respectively, against ~47% in FY2021.

Healthy financial profile characterised by comfortable capitalisation indicators and liquidity position – Over the past several years, TAAPPL has maintained healthy financial profile aided by high cash flow generation, minimal capital expenditure (capex) plans and efficient working capital management. As a result, the dependence on external borrowings have remained low for the company, primarily used to fund the working capital requirements. The company's capital structure remained comfortable as marked by total debt of Rs. 1.7 crore as on March 31, 2022 (nil as on March 31, 2021) and moderate, yet growing net worth base. Credit position of the company remains strong as manifested by an improved interest coverage ratio at 123.4 times in FY2022. Further, TAAPPL's liquidity position remained adequate with no long-term debt repayments, minimal capex plans along with healthy liquid investments of Rs. 27.8 crore in the form of fixed deposits and liquid mutual fund as on December 28, 2022. The company's financial profile is expected to remain comfortable over the medium term, supported by steady internal accrual generation and minimal reliance on external debt.

Credit challenges

Scale of operations remains moderate with geographical presence limited to only four states – TAAPPL's scale of operations have remained moderate over the years with revenue of ~Rs. 114.2 crore in FY2022 and estimated revenue of ~Rs. 130 crore in FY2023, resulting in relatively lower economies of scale. Moreover, the operations are concentrated in four states—Gujarat (46% of revenues in FY2022), Maharashtra (39%), Madhya Pradesh (9%) and Chhattisgarh (6.5%). However, the same has moderated in the current fiscal with Gujarat and Maharashtra accounting for 80% of revenues in 8M FY2023 (85% in FY2022) and the share of Madhya Pradesh increasing to 14%. Moreover, the company is setting up its first branch in Rajasthan, wherein considerable revenue scale up is expected to result in some diversification of the geographical concentration.

High competition in the industry from organised and unorganised segments limiting pricing flexibility – The competitive nature of the automobile spares distribution channel in India, characterised with the presence of many smaller players besides several national and regional level players, such as Jullundur Motor Agency and India Motor Parts & Accessories Limited, among others, TAAPPL faces pressure from these players, which limits the pricing flexibility. Further, profitability is impacted to an extent by the trading nature of its operations with minimal differentiation among organised players. However, it gains from its established market position in the industry, aided by its strong ties with auto component manufacturers and its widespread distribution network in the four states where it operates.

Dependence on cyclical automotive industry as most sales are driven by the CV segment – TAAPPL derives majority of its revenues from the automotive industry, mainly the CV segment, which exposes it to high competitive intensity and inherent cyclicity in the auto industry. However, the company has diversified into the passenger vehicles segment, tractors, lubricants and garage equipment over the years; whose revenue concentration, albeit, remains relatively low.

Liquidity position: Adequate

TAAPPL's liquidity position remains **adequate** supported by steady internal accruals, free cash balances/liquid investments of ~Rs. 27.8 crore as on December 2022; undrawn bank lines of ~ Rs. 4 crore (as on November 2022), no debt-funded capex plans or debt repayment liability. The company had no external term loans outstanding as on December 31, 2022 and the average utilisation of its fund-based bank limit remained fairly low at ~9% during the 12-month period ended November 2022.

Rating sensitivities

Positive factors – The rating may be upgraded if there is substantial increase in TAAPPL's scale and profitability, while maintaining healthy coverage indicators and adequate liquidity position, on a sustained basis.

Negative factors – The rating may be downgraded if there is considerable decline in TAAPPL's sales and profit margins, sizeable dividend payout or stretch in the working capital cycle, exerting pressure on the company's liquidity profile. Moreover, any weakening of credit profile or linkages with TVS Mobility may also warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach–Implicit Support from Parent or Group
Parent/Group support	Parent company, TVS Mobility Private Limited, owns 76% stake in TAAPPL. The rating is based on implicit support from the parent company.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of TAAPPL.

About the company

Incorporated in 1944, TAAPPL was established as an authorised jobber for General Motors (GM) and was promoted by four families. From being an authorised jobber for GM, over the years, the company has diversified into the distribution of spares and accessories of all major auto components suppliers. In May 2008, three of the four original promoter families exited the business, while one of them wished to continue and invited the TVS Group to acquire the stake of the exiting three families. Thereafter in September 2008, capital was infused in the business by way of rights issue. At present, TVS Mobility holds 76% shares in TAAPPL. The company distributes automobile components, spares parts and consumables through its 21 branches across Maharashtra, Gujarat, Madhya Pradesh and Chhattisgarh. Its head office is in Mumbai.

Key financial indicators (audited)

TAAPPL – Standalone	FY2021	FY2022
Operating income	96.4	114.2
PAT	5.7	9.5
OPBDIT/OI	7.6%	10.0%
PAT/OI	5.9%	8.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	76.8	123.4

PAT: Profit after Tax; OI: Operating Income; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		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 FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 02, 2023	Jan 20, 2022	Nov 12, 2020	Jul 31, 2019
1 Fund-based – Cash Credit	Long Term	4.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits – 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, is 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
-	Fund-based – Cash Credit	NA	NA	NA	4.00	[ICRA]A+ (Stable)

Source: Company

Annexure-II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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Branches



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