March 04, 2024

# 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 reaffirmation for The Associated Auto Parts Private Limited (TAAPPL) factors in its strong operational track record 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). TAAPPL reported steady growth in its operating income to Rs. 124.5 crore in FY2023. While some moderation in growth momentum is likely over the near term, the company is expected to report steady accrual generation. Additionally, its capital structure and coverage indicators have remained strong with healthy accrual generation, no debt outstanding and adequate liquidity position. The rating also continues to factor in 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 rating is, however, constrained by TAAPPL's moderate scale of operations with its geographical presence limited to only four Indian states. However, the company has recently commenced a new branch in Rajasthan, which has resulted in geographical diversification of its supplier and customer bases, to some extent. 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. Also, 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 cyclicality in the industry.

The Stable outlook on the rating reflects ICRA's opinion that TAAPPL will continue to report a 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 the company –** TAAPPL enjoys strong parentage from the TVS Rajam Group with its subsidiary, TVS Mobility, holding a controlling stake of 76% in the company. There have been no changes in the linkages between TAAPPL and its parent. Owing to its parentage, TAAPPL continues to benefit from strong financial flexibility and business linkages, wherein most of its traded products are procured from TVS Group companies.

**Established relationships with major auto component manufacturers along with 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. 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. Also, established relationships with its customers ensure healthy share of business and revenue visibility for the company.

**Diversified product profile apart from brakes systems** – TAAPPL's product portfolio consists of a 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 ~40-42% of its total revenues in the past three fiscals.

**Comfortable capital structure and coverage position –** Over the past several years, TAAPPL has maintained its healthy financial profile supported 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 improved in FY2023, marked by no debt balance on the balance sheet and moderate, yet growing, net worth base. Coupled with healthy cash accrual generation, this resulted in improvement of its interest coverage ratio to 173.3 times in FY2023 from 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 in the form of fixed deposits. 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 few states** – TAAPPL's scale of operations have remained moderate over the years with revenue of ~Rs. 124.5 crore in FY2023 and estimated moderation to ~Rs. 118 crore in FY2024, resulting in low economies of scale. Moreover, its operations have been historically concentrated in four states—Gujarat (47% share in FY2023), Maharashtra (40%), Madhya Pradesh (7%), and Chhattisgarh (6%). However, the company has launched operations in Rajasthan in the current fiscal, following which the revenue concentration is expected to moderate, going forward.

**High competition in the industry from organised and unorganised players, limiting pricing flexibility –** TAAPPL faces high competitive pressure from several small players besides several national and regional level players, such as Jullundur Motor Agency and India Motor Parts & Accessories Limited, among others. This limits the company's pricing flexibility. Further, profitability is also 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 five states where it operates currently.

**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 cyclicality in the auto industry. However, over the years, the company has diversified into passenger vehicles, tractors, lubricants and garage equipment, whose revenue concentration remains low.

## Liquidity position: Adequate

TAAPPL's liquidity position remains **adequate** supported by steady internal accruals, free cash balances/liquid investments of ~Rs. 24 crore as on November 2023 and fully undrawn bank lines of Rs. 4 crore available. Coupled with no planned debt-funded capex, no debt repayment liability and healthy cash accruals, this is estimated to support its liquidity position over the near to medium term.

## 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 |
| **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** | Standalone |

## 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, Rajasthan, Madhya Pradesh and Chhattisgarh. Its head office is in Mumbai.

### Key financial indicators (audited)

| TAAPPL – Standalone | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 114.2 | 124.5 |
| **PAT** | 9.5 | 9.9 |
| **OPBDITA/OI** | 10.0% | 9.5% |
| **PAT/OI** | 8.3% | 8.0% |
| **Total outside liabilities/Tangible net worth (times)** | 0.3 | 0.3 |
| **Total debt/OPBDITA (times)** | 0.1 | 0.0 |
| **Interest coverage (times)** | 123.4 | 173.3 |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore*

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Mar 04, 2024 | Mar 02, 2023 | Jan 20, 2022 | Nov 12, 2020 |
| 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 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** | **Fund-based – Cash Credit** | NA | NA | NA | 4.0 | [ICRA]A+ (Stable) |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS

**Shamsher Dewan**
+91 124 4545328
shamsherd@icraindia.com

**Kinjal Shah**
+91 22 6114 3442
kinjal.shah@icraindia.com

**Deepak Jotwani**
+91 124 4545 870
deepak.jotwani@icraindia.com

**Charvi Sagar**
+91 124 4545 373
charvi.sagar@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

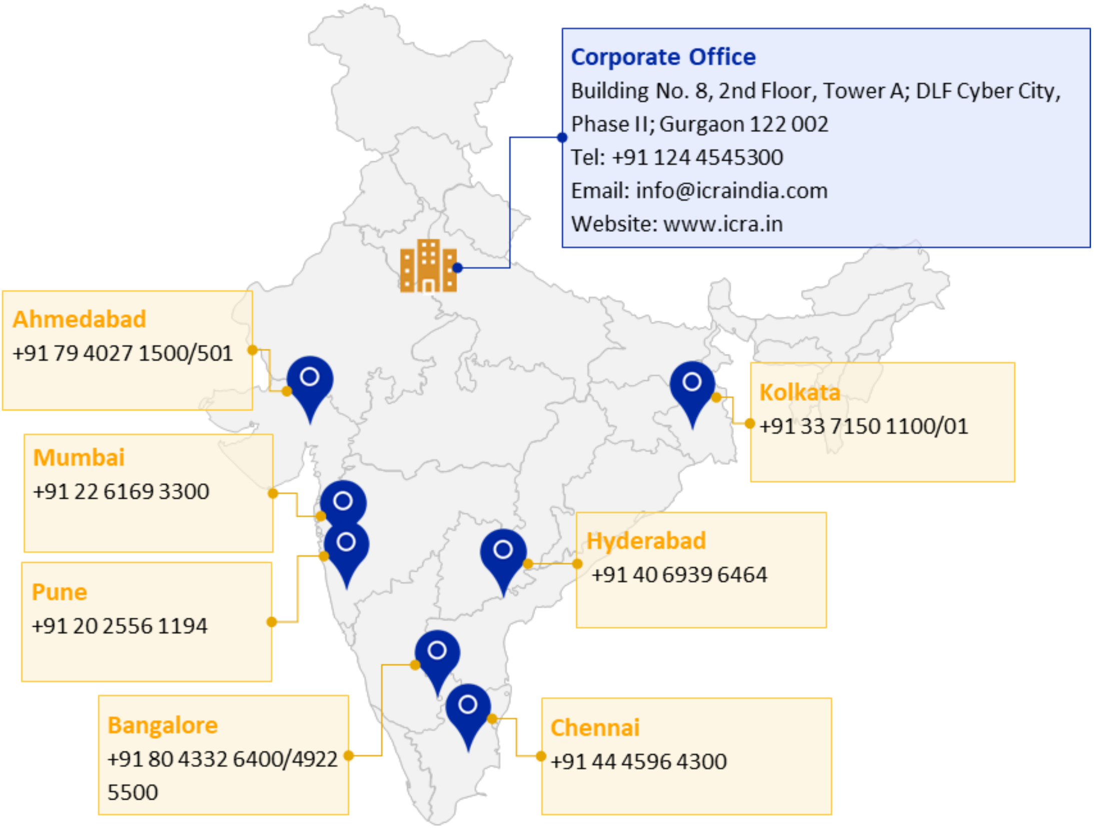
For more information, visit www.icra.in

# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches






ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.