

March 31, 2024

Trichur Sundaram Santhanam & Family Private Limited: Long-term rating upgraded; Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Cash credit	50.00	50.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Short term - Fund Based - e-DFS	15.00	15.00	[ICRA]A1+ reaffirmed
Short term - Non fund based-BG	25.00	25.00	[ICRA]A1+ reaffirmed
Long term/Short term - Unallocated	20.00	20.00	[ICRA]AA+ (Stable) upgraded from [ICRA]AA (Stable) / [ICRA]A1+ reaffirmed
Total	110.00	110.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action considers the change in analytical approach. ICRA has considered the consolidated financial profile of Trichur Sundaram Santhanam & Family Private Limited ('TSSFPL'/'company') as against the standalone profile considered earlier.

TSSFPL is part of the TS Santhanam family (TSF) group, which has interests in the automotive and financial services sector. It is engaged in the business of dealership, distribution and service of automotive vehicle and spare parts across the country. In the vehicle dealership segment, it sells Mercedes-Benz in the states of Tamil Nadu and Karnataka and Volkswagen cars in Tamil Nadu. In the auto spare parts distribution segment, it distributes various auto components like suspension parts, brake parts, transmission and steering parts, electrical spares, lubes, engine spares, bearings, and other components. As of March 2023, TSSFPL held investments in Brakes India P Limited (70.3%), Wheels India Limited (30.3%), India Motor Parts & Accessories Limited (21.9%), Mind SRL Italy (3.2%) and Sundaram Composite Structures P Limited (41.0%).

TSSFPL has a demonstrated track record of operating as a key dealer for Mercedes-Benz in Tamil Nadu and Karnataka and Volkswagen cars in Tamil Nadu. With favourable demand for domestic passenger vehicle segment (especially luxury cars), its sales volumes were strong in FY2022 and FY2023, although there is a moderation in growth in FY2024 (on an elevated base). TSSFPL also has a long-standing presence in the after-market and spare distribution business, which contribute ~80% of its standalone revenues. Stable demand outlook for automotive industry is expected to support TSSFPL's standalone performance going forward. On the key investee entities, Brakes India P Limited (BIPL) is a leading player in the domestic auto braking systems. It manufactures brake systems and ferrous castings and has an integrated manufacturing setup. BIPL's operations are well-diversified with revenues generated from domestic OEMs, replacement and export segments, and is also present across segments - passenger vehicles, commercial vehicles, tractors and off-road. BIPL's financial profile is strong characterized by healthy growth in revenues, earnings and cashflows in last three years, modest debt levels and strong liquidity position. BIPL's performance is expected to be supported by its strong business profile and stable automotive demand. Wheels India Limited (WIL) is amongst the largest manufacturers of automotive steel wheel rims in India and earthmover steel wheel rims globally. It has established relationships with automotive and construction equipment OEMs in India and globally. WIL enjoys a dominant domestic market share in steel rims segments and is among the larger manufacturers of air suspension products used in both buses and trucks and has healthy market share with domestic OEMs. India Motor Parts & Accessories Limited (IMPAL) is an established automotive spare parts and accessories distributor with pan-India presence and its product portfolio is diverse (brake systems, steering linkages, fasteners, power train components, engine parts, lubricants, etc).

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its consolidated credit profile, supported by established business position, diversified profile and long-standing relationship with customers.

Key rating drivers and their description

Credit strengths

Established presence in the automotive components and dealership businesses - TSSFPL forms part of the TSF group (which has interests in automotive and financial services segments) and it inherited the parts distribution business and Volkswagen and Mercedes-Benz dealership operations (apart from its share of fixed and investment assets), from the re-organisation of the larger TVS group (as per the Composite scheme of amalgamation and arrangement approved by NCLT with effective date being February 4, 2022). In the vehicle dealership business, it has a long operational track record and is one of the critical dealers for Mercedes-Benz (in Tamil Nadu and Karnataka) and Volkswagen (in Tamil Nadu). Since October 2021, there has been change in business model of dealership business for Benz wherein the invoicing is done by Benz while the dealership operations are handled by TSSFPL. It entails enhanced transparency in overall sales process, limited stock holding risk and working capital dependence etc. This coupled with the favourable demand for the luxury car segment augers well for the company. In parts dealership business, it commands long-standing presence across the country. Going forward, its revenues shall remain supported by stable demand growth, diversified product portfolio, established relationship with component suppliers and penetration into newer markets. Its subsidiary, BIPL has an established presence in the automotive components business with a leading market share in domestic auto braking systems. BIPL's operational profile is strong and characterised by an integrated manufacturing setup, well-diversified revenue stream from domestic OEMs, replacement and export segments, and presence across passenger vehicles, commercial vehicles, tractors and off-road segments. Other investee entity, WIL is one of the largest manufacturers of automotive steel wheel rims in India and earthmover steel wheel rims globally and has established relationships with automotive and construction equipment OEMs in India and globally. IMPAL is an established automotive spare parts and accessories distributor with pan-India presence and has as diversified product portfolio.

Strong financial and investment profile – TSSFPL's financial profile is strong and is characterized by a large scale of operations with revenues supported by strong growth in the auto component, vehicle dealership and spare parts distribution segments on the back of favourable demand from end-segments. For FY2023, the consolidated¹ revenues was Rs. 7,827.8 crore with operating and net margins of 12.3% and 6.9% respectively. The margin profile is supported by improving scale of operations, softer commodity prices and efficiency gains arising from integrated nature of operations (in BIPL). With interest cover of over 8x and Total debt to OPBDITA ~1x (as of FY2023), the consolidated coverage and leverage metrics are comfortable and are supported by a steady improvement in the earning profile and reduction in debt levels. The adjusted debt to OPBDITA ratio is estimated at ~1.5-1.7x in FY2024. The liquidity position is strong and it also has investments in other entities within the TSF group (Turbo Energy Limited), whose credit profile are robust. The company's credit profile is expected to remain comfortable supported by its established business position, diversified profile and long-standing relationship with customers.

Credit challenges

Vulnerability of earnings to cyclicity in automotive industry - In the vehicle dealership business, the operations are currently restricted to two OEMs and in two states thus restricting the overall growth potential. Also, with its standalone operations and investee companies operating in the automotive industry, its earnings and cashflows are exposed to the vagaries of domestic auto industry cycles, especially commercial vehicles. Also, with the investee entities' exposure to the export markets, it has vulnerability to demand dynamics and economic situation in overseas markets. Nevertheless, its established relationship with its customers, healthy order book, and increase in share of business with existing customers as part of vendor diversification initiatives by global OEMs partly mitigate the revenue risk and are likely to support healthy medium-term revenue prospects.

Competition in the spare parts distributions business - Inherent to the nature of business, the parts distribution business is competitive and hence there exists a pricing pressure from other original equipment spares and other organized and unorganized players. ICRA notes that the company is relatively insulated given its long-standing presence, diversified product offerings and a pan-India presence.

¹ audited

Environmental and social risk - Not applicable

Liquidity position: Strong

TSSFPL's liquidity is strong. The company has healthy cash reserves of Rs. 190 crore as of September 2023 (standalone) and generates steady cashflow from operations. Its working capital utilisation in the last six months was ~20% and has sizeable undrawn working capital lines against the sanctioned facilities. At consolidated level, the cash balance was Rs. 466 crore of as March 2023 and is expected to strong with sustained improvement in earnings and cashflows.

Rating sensitivities

Positive factors – Sharp improvement in TSSFPL's scale of operations along with sustained improvement in margins, coverage metrics and liquidity position shall trigger a positive rating action.

Negative factors – The ratings could be downgraded if TSSFPL's revenues and margins deteriorate on a sustained basis, thus stretching its cash flows or weakening its credit metrics on a sustained basis. Any large debt funded capex / acquisitions resulting in moderation of debt metrics on a sustained basis can trigger a negative rating action. Specific credit metrics resulting in a rating downgrade include Total debt to OPBDITA of 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships Auto component Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of subsidiary / associate provided in Annexure-2

About the company

Trichur Sundaram Santhanam & Family Private Limited is engaged in the business of dealership, distribution and service of automotive vehicle and spare parts across regions in the country. In the vehicle dealership segment, it sells Mercedes-Benz in the states of Tamil Nadu and Karnataka and Volkswagen cars in Tamil Nadu. In the auto spare parts distribution segment, it distributes various auto components like suspension parts, brake parts, transmission and steering parts, electrical spares, lubes, engine spares, bearings, and other components. The company has primary investments in Brakes India P Limited, IMPAL, Wheels India Limited, Sundaram Composite Structures P Limited and Mind Srl Italy.

Key financial indicators (audited)

Audited	2M FY2022	FY2023	2M FY2022	FY2023
	Standalone		Consolidated	
Operating income	169.4	1,225.1	1,145.7	7,827.8
PAT	11.5	196.6	109.6	541.0
OPBDIT/OI	9.6%	9.5%	13.9%	12.3%
PAT/OI	6.8%	16.0%	9.6%	6.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	1.1	0.7
Total debt/OPBDIT (times)	0.4	0.5	1.7	1.1
Interest coverage (times)	27.6	37.8	8.6	8.2

Amount in Rs crore; Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities; PAT excludes profit from associates. Consolidated figures are as per published results with financial ratios adjusted for ICRA computation and may not be directly comparable with results reported by the company in some instances. The adjusted ratios represent consolidation of entities as per annexure II and hence are not comparable with the table above.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 31, 2024			
1	Long term – Fund based - Cash credit	Long-term	50.00	22.30	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	-	-
2	Short term - Fund Based – e-DFS	Short-term	15.00	-	[ICRA]A1+	[ICRA]A1+	-	-
3	Short term-Non fund based-BG	Short Term	25.00	19.9	[ICRA]A1+	[ICRA]A1+	-	-
5	Long term/Short term -Unallocated	Long-term/ Short Term	20.00	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Cash credit	Simple
Short term - Fund Based - EDFs	Very Simple
Short term-Non fund based-BG	Very Simple
Long term/Short term - Unallocated	NA

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	Cash Credit	-	8.6%	-	50.00	[ICRA]AA+(Stable)
NA	Electronic - Dealer Financing Scheme	-	-	-	15.00	[ICRA]A1+
NA	Bank Guarantee	-	-	-	25.00	[ICRA]A1+
NA	Long Term / Short Term – Unallocated	NA	NA	NA	20.00	[ICRA]AA+(Stable)/[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
Trichur Sundaram Santhanam & Family Private Limited	100% (rated entity)	Full Consolidation
Brakes India P Limited	70.4%	Full Consolidation
India Motor Parts & Accessories Limited	21.9%	Full Consolidation
Wheels India Limited (quoted)	30.3%	Full Consolidation
Mind SRL Italy	3.2%	Equity Method
Sundaram Composite Structures P Ltd	41.0%	Equity Method

Source: Company; As per TSSFPL's published consolidated financial statements of, the associate entities have been consolidated as per the equity method. However, for analytical purposes, ICRA has fully consolidated these entities given any financial support, if needed.

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