April 09, 2021

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	16.00	40.00	[ICRA]AA (Stable); reaffirmed
Long-term non-fund based	0.25	0.25	[ICRA]AA (Stable); reaffirmed
Short-term non-fund based (sub limit)	(2.00)	(2.00)	[ICRA]A1+; reaffirmed
Total	**16.25**	**40.25**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings considers India Motor Parts and Accessories Limited's (IMPAL) established presence in the automotive spare parts and accessories distribution space and its superior 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 about 40 auto component manufacturers. T.V. Sundram Iyengar and Sons (TVS Sons, rated [ICRA]AA&/ [ICRA]A1+&), an established name in the domestic auto ancillary space, holds 21.87% stake in the company and individual members of the TVS family owned 14.32% as on December 31, 2020[1]. Although IMPAL does not require operational or financial support from TVS Sons, IMPAL enjoys strong implicit financial and operational flexibility from being part of the larger TVS Group of companies.

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 and liquid investments of Rs. 255.1 crore as on September 30, 2020. In addition to this, it has long-term investments in TVS Group companies, fair valued at Rs. 738.6 crore as on September 30, 2020. Of these long-term investments, the investments in Sundaram Finance Limited, Sundaram Finance Holdings Limited, Royal Sundaram General Insurance Company Limited and Wheels India Limited are in the form of equity instruments, fair valued at Rs. 723.0 crore, whereas that in Sundaram Home Finance Ltd. is in the form of non-convertible debentures fair valued at Rs. 15.6 crore. The company is open to long-term investments in other Group entities. It has invested Rs. 22.1 crore in Wheels India Limited (WIL) for a stake of 2.14% in June 2020 and has got board approval for investing Rs. 70.0 crore in Brakes India Private Limited (BIPL) for a stake of 1.54% (to be paid out before July 2021, subject to regulatory approvals). Nevertheless, the cash and bank balances and liquid investments remain significant and the company is expected to remain net debt negative over the medium term.

The company had a steep 55% decline in revenues in Q1 FY2021 owing to the pandemic-led lockdown impact on the operations. However, the revenues rebounded in the subsequent quarters with YoY growth of 9.2% and 16.5% in Q2 FY2021 and Q3 FY2021 respectively, which limited IMPAL's overall revenue de-growth in 9M FY2021 to 10.5% on a YoY basis. This was aided by surge in pent-up demand post the opening up of the economy, increasing preference for personal mobility owing to safety concerns and strong traction in SCV/MUV/farm tractor segment amidst the pick-up in e-commerce deliveries and healthy rural demand. ICRA expects a healthy 10-12% growth for the aftermarket segment in FY2022, partly emanating from the commodity passthrough. Nevertheless, localized lockdowns due to rising Covid-19 infections or disruption in automotive

[1] *Post the ongoing TVS Group restructuring exercise, the shares held by TVS Sons in IMPAL will be transferred to Trichur Sundaram Santhanam & Family Private Limited. There is no impact on IMPAL's operations because of the Group restructuring exercise.*

production due to supply shortage (especially semiconductors) could derail the growth momentum for the industry and remains a key monitorable. IMPAL's limited value addition due to its trading nature of operations and intense competition restrict its pricing flexibility in general, and the operating profit margins (OPM) have remained in the range of ~6-8% over the past few years. For 9M FY2021, the company reported OPM of 6.9% (6.6% in 9M FY2020) supported by its lower fixed costs and asset-light nature of operations, despite the covid-related impact on its revenues. Despite the moderate OPM, the net profit margins (NPM) are supported by dividend/interest income from its investments and negligible interest expenses. However, the company's RoCE remains low at 5.9% for FY2020 (Previous Year: 5.9%)[2].

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 comprising of 70 branches and more than 18,000 dealers. IMPAL's product portfolio is diverse, comprising of brake systems, steering linkages, fasteners, power train components, engine parts and lubricants, to name a few. The company caters to products from about 40 auto component manufacturers including Brakes India Private Limited, Rane (Madras) Limited, Sundram Fasteners Limited and Wabco India Limited.

Significant cash and liquid investments and market value of long-term investments; nil utilization of working capital bank lines over the last several years, barring a few days in Q1 FY2021– IMPAL has not utilized its working capital lines for the past several years and remained net debt negative, except for a brief period in Q1 FY2021, wherein short-term debt was availed to shore up liquidity amid the lockdown. As on September 30, 2020, the company had cash and bank balances and liquid investments of Rs. 255.1 crore. IMPAL also has long-term investments in TVS Group companies, fair valued at Rs. 738.6 crore as on September 30, 2020. Of these long-term investments, the investments in Sundaram Finance Limited, Sundaram Finance Holdings Limited, Royal Sundaram General Insurance Company Limited and Wheels India Limited are in the form of equity instruments, fair valued at Rs. 723.0 crore, whereas that in Sundaram Home Finance Ltd. is in the form of non-convertible debentures fair valued at Rs. 15.6 crore. In June 2020, the company has invested Rs. 22.1 crore in WIL for a stake of 2.14% and it has also received board approval to invest Rs. 70.0 crore in BIPL for a stake of 1.54%, to be paid out before July 2021, subject to regulatory approvals. Being an asset-light company, IMPAL's capex is also expected to remain negligible over the medium term, akin to the past. ICRA expects the company to remain net debt negative over the medium term, with sizeable cash balance/liquid investments and fair value of long-term investments.

Strong financial and operational flexibility from being part of the larger TVS Group of companies - IMPAL enjoys strong operational flexibility by virtue of it belonging to the larger TVS Group of Companies – an established name in the domestic auto ancillary industry. TVS Sons (rated [ICRA]AA&/ [ICRA]A1+&) holds 21.87% stake in the company and individual members of the TVS family owned 14.32% (as on December 31, 2020).

Credit challenge

Trading nature of operations and stiff competition limit pricing flexibility –IMPAL's revenues have largely remained flat over the past few years, with a four-year CAGR ended FY2020 of 1.5% and the company's revenues stood at Rs. 367.1 crore in 9M FY2021 (Rs. 410.2 crore in 9M FY2020). 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 organized and unorganized distributors/dealers, which restricts IMPAL's pricing flexibility and margins. Despite the covid-related impact on the operations, the company's OPM stood at 6.9% in 9M FY2021 (6.6% in 9M FY2020), supported by its lower fixed costs and asset light nature of operations. The company's RoCE is low at

[2] *Upon adjusting net-worth for fair value of investments, RoCE was 15.5% for FY2020 (Previous Year: 16.6%)*

5.9% for FY2020 (Previous Year: 5.9%), although it is higher at 15.5% for FY2020 (Previous Year: 16.6%), upon adjusting net worth for fair value of investments.

High dependence on the commercial vehicle segment – CV spares contribute to ~40% of IMPAL's overall sales. This exposes the company to the inherent cyclicality in CV aftermarket component sales (linked to economic cycles). While the increasing proportion of revenues from PV, tractor and industrial segment replacement components mitigates the risk to an extent, IMPAL's revenues remains susceptible to the overall industry slowdown, akin to that witnessed in FY2020 and Q1 FY2021.

Liquidity position: Superior

IMPAL's liquidity is superior with positive cash flow from operations in FY2020, cash and bank balances and liquid investments of Rs. 255.1 crore and undrawn working capital limits of Rs. 40.0 crore as on September 30, 2020. In addition, the company also has long-term investments in TVS Group companies – in the form of equity instruments of Sundaram Finance Limited, Sundaram Finance Holdings Limited, Royal Sundaram General Insurance Company Limited and Wheels India Limited, fair valued at Rs. 723.0 crore and non-convertible debentures of Sundaram Home Finance Ltd. with fair value of Rs. 15.6 crore as on September 30, 2020. In relation to these sources of cash, IMPAL has only negligible capex commitment for FY2021 (to be funded by internal accruals) and no debt repayments. However, IMPAL is open to long-term investments in other group companies and has received board approval for investing Rs. 70.0 crore in BIPL for a stake of 1.54%, which is expected to be paid out before July 2021, subject to regulatory approvals. 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 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, with net debt/OPBDITA greater than 1.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating 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

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 ~70 branches and over 18,000 active dealers. The company is part of the larger TVS group and T V Sundram Iyengar & Sons Private Limited (rated [ICRA]AA &/[ICRA]A1+ &) that holds 21.87% stake. Sundaram Finance Holdings Limited holds 18.52% stake in the company as on December 31, 2020 [3].

[3] *Post the ongoing TVS Group restructuring exercise, the shares held by TVS Sons in IMPAL will be transferred to Trichur Sundaram Santhanam & Family Private Limited. There is no impact on IMPAL's operations because of the ongoing Group restructuring exercise.*

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	524.2	532.4
PAT (Rs. crore)	41.2	49.6
OPBDIT/OI (%)	8.3%	6.7%
PAT/OI (%)	7.9%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.3	0.4
Interest Coverage (times)	-	311.7

Source: Company, ICRA Research; Note: Amount in Rs. Crore
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					April 09, 2021	Jan 31, 2020	Oct 05, 2018	Aug 04, 2017
1	Fund-based facilities	Long Term	40.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-Fund based facilities	Short Term	0.25	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-Fund based facilities (sub limit)	Long term / short term	(2.00)	-	[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 click here

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	Long-term fund based	-	-	-	40.00	[ICRA]AA (Stable)
NA	Long-term non-fund based	-	-	-	0.25	[ICRA]AA (Stable)
NA	Short-term non-fund based (sub limit)	-	-	-	(2.00)	[ICRA]A1+

Source: India Motor Parts and Accessories Limited

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
CAPL Motors Private Limited – Subsidiary	90.00%	Full consolidation
Transenergy Limited - Associate	36.45%	Equity method

Source: India Motor Parts and Accessories Limited

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Vinutaa S
+91 44 4596 4305
Vinutaa.s@icraindia.com

William Charles
+91 44 4297 4305
william.charles@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

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches