

May 19, 2022

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	40.00	60.00	[ICRA]AA (Stable); reaffirmed/assigned
Long-term non-fund-based	0.25	-	
Short-term fund based (sub limit)	-	(60.00)	[ICRA]A1+; reaffirmed/assigned
Short-term non-fund based (sub limit)	(2.00)	-	
Total	40.25	60.00	

*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 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. 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 March 31, 2022). Although IMPAL does not require financial support, it enjoys strong financial and operational flexibility from being 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. 146.8 crore as on December 31, 2021. In addition to this, it has long-term investments in TVS Group companies, fair valued at Rs. 1,140.9 crore as on December 31, 2021. In FY2022, it has invested Rs. 70.0 crore in Brakes India Private Limited (BIPL) for a stake of 1.54% and Rs. 8.5 crore in Sundaram Finance Holdings Limited by participating in its rights issue. 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 modest-scaled player with an operating income of Rs. 531.5 crore for FY2021 and Rs. 469.2 crore for 9M FY2022. Also, its sizeable dependence on CV spares exposes the company to the inherent cyclicity 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's operating profit margin stood at 8.1% in 9M FY2022. The company's RoCE is low at 5.3% for FY2021 (Previous Year: 5.9%), although it is higher at 14.9% for FY2021 (Previous Year: 15.5%), upon adjusting net worth for fair value of investments.

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 78 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 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; minimal utilization of working capital bank lines over the last several years – IMPAL has had minimal utilization of its working capital lines in the past several years and remained net debt negative as on December 31, 2021 with cash and bank balances and liquid investments of Rs. 146.8 crore. IMPAL also has long-term investments in T S Santhanam Group companies, fair valued at Rs. 1,132.7 crore as on December 31, 2021. Of these long-term investments, the investments in Sundaram Finance Limited, Sundaram Finance Holdings Limited, Royal Sundaram General Insurance Company Limited, Wheels India Limited and Brakes India Private Limited (BIPL) are in the form of equity instruments, fair valued at Rs. 1,117.2 crore, whereas that in Sundaram Home Finance Ltd. is in the form of non-convertible debentures fair valued at Rs. 15.5 crore. In June 2021, the company has invested Rs. 70.0 crore in BIPL for a stake of 1.54% and invested Rs. 8.54 crore in Sundaram Finance Holdings Limited in by participating in its rights issue. IMPAL currently holds 2.05% stake in Sundaram Finance Holdings Limited. Being an asset-light company, IMPAL's capex is 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.

Financial and operational flexibility from being part of the T S Santhanam Group - IMPAL enjoys strong operational and financial flexibility by virtue of it belonging to 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 March 31, 2022).

Credit challenges

Trading nature of operations and stiff competition limit pricing flexibility –IMPAL's revenues have largely remained flat over the past few years until FY2021. For 9M FY2022, the company's revenues stood at Rs. 469.2 crore (as against Rs. 367.1 crore in 9M FY2021). 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. The company's OPM stood at 8.1% in 9M FY2022. The company's RoCE is low at 5.3% for FY2021 (Previous Year: 5.9%), although it is higher at 14.9% for FY2021 (Previous Year: 15.5%), upon adjusting net worth for fair value of investments.

Sizeable dependence on the commercial vehicle segment – CV spares contribute to ~33% of IMPAL's overall sales. This exposes the company to the inherent cyclicity 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 FY2021.

Liquidity position: Strong

IMPAL's liquidity is strong with positive cash flow from operations in FY2021, cash and bank balances and liquid investments of Rs. 146.8 crore and undrawn working capital limits of Rs. 60.0 crore as on December 31, 2021. 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	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 ~78 branches and over 18,000 active dealers. The company is part of T S Santhanam Group Limited (a faction of the larger TVS Group of Companies) and Trichur Sundaram Santhanam & Family Private (the hold co of the Group) holds 21.87% stake. Sundaram Finance Holdings Limited holds 19.19% stake in the company as on March 31, 2022.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	532.4	531.5
PAT (Rs. crore)	49.6	51.2
OPBDIT/OI (%)	6.7%	8.5%
PAT/OI (%)	9.3%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.4	0.0
Interest Coverage (times)	311.7	197.4

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

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 Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 19, 2022	April 09, 2021	-	Jan 31, 2020	Oct 05, 2018
1	Fund-based facilities	Long Term	60.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-Fund based facilities	Long Term	-	-	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund-based facilities (sub limit)	Short Term	(60.00)	-	[ICRA]A1+	-	-	-	-
4	Non-Fund based facilities (sub limit)	Short term	-	-	-	[ICRA]A1+	-	[ICRA]A1+	[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 analyzing 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term fund based	NA	NA	NA	60.00	[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-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: Company

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