

January 31, 2020

India Motor Parts and Accessories Limited: Ratings reaffirmed

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	5.00	16.00	[ICRA]AA (Stable); reaffirmed
Long-term non-fund based	25	0.25	[ICRA]AA (Stable); reaffirmed
Short-term non-fund based (sub limit)	1.00	(2.00)	[ICRA]A1+; reaffirmed
Total	5.25	16.25	

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. The company has remained net debt negative for the last several years, achieved through its prudent working capital management and limited capex due to its asset-light strategy. IMPAL had cash and liquid investments of Rs. 237.5 crore as on September 30, 2019 (as against Rs. 130.1 crore as on March 31, 2018). In addition to this, it has investments in TVS Group companies Sundaram Finance Limited, Sundaram Finance Holdings Limited and Royal Sundaram General Insurance Company Limited fair valued at Rs. 746.6 crore (as on March 31, 2019; post stake sale of 2.65% in Royal Sundaram General Insurance Company for Rs. 102 crore in Feb 2019). IMPAL also enjoys strong financial and operational flexibility from being part of the larger TVS Group of companies, an established name in the domestic auto ancillary space.

IMPAL is a modest-scaled player with an operating income of Rs. 524.2 crore for FY2019. Also, its dependence on CV spares exposes the company to the inherent cyclicity in CV aftermarket component sales (linked to economic cycles). In H1 FY2020, IMPAL's operating income grew by a meager 4.3% YoY due to the ongoing slowdown in automotive/replacement sales. This growth was supported by expansion of its dealer network and deeper market penetration. IMPAL's limited value addition due to its trading nature of operations and intense competition restrict its pricing flexibility in general. The company's operating margins have dipped in H1 FY2020 by 80 bps on YoY to 6.4% (PY: 7.2%) impacted by steeper discounts and increased operating costs, due to the ongoing slowdown. While IMPAL's net margins are supported by its dividend/interest income from its investments, the company's RoCE remains low at 5.9% for FY2019 (Previous Year: 5.2%)¹.

Anticipated consolidation in the automotive aftermarket space augurs well for players like IMPAL. The company is also open to acquisitions in similar line of business, for expanding its operations. While margins are expected to remain at current levels in the near term given the slowdown in sales and associated costs, pickup in automotive demand should aid margin improvement. The company is expected to remain net debt negative with significant cash balances over the medium term.

¹ Upon adjusting networth for fair value of investments, RoCE was 16.6% for FY2019 (Previous Year: 14.6%)

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 Wabco India Limited, Rane (Madras) Limited and TVS Group entities like Sundram Fasteners Limited and Brakes India Private Limited among others.
- **Significant cash and liquid investments; nil utilization of working capital bank lines over the last several years** – IMPAL has not utilized its working capital lines and has remained net debt negative for the last several years. As on March 31, 2019, the company had cash and bank balances and liquid investments of Rs. 227.4 crore (Rs. 237.5 crore as on September 30, 2019) and investments in Sundaram Finance Limited, Sundaram Finance Holdings Limited and Royal Sundaram General Insurance Company Limited, fair valued at Rs. 746.6 crore. Being an asset-light company, IMPAL's capex is also expected to remain negligible over the medium term, akin to the past. Although it is open to acquisitions, ICRA expects the company to remain net debt negative over the medium term, with sizeable cash balance/liquid 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. The TVS family owns 8.85% in the company and T.V. Sundram Iyengar and Sons (rated [ICRA]AA (Stable)/ [ICRA]A1+) holds 21.87% stake (as on December 31, 2019).

Credit challenges

- **Trading nature of operations and stiff competition limit pricing flexibility** – IMPAL has relatively modest scale of operations, with operating income of Rs. 524.2 crore for FY2019. 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. These restrict IMPAL's pricing flexibility and margins – the company's operating margins declined by 80 bps from 7.2% in H1 FY2019 to 6.4% in H1 FY2020 with higher discounts/increased operating expenses, due to competition and the ongoing slowdown in replacement sales. The company's RoCE is also low at 5.9% for FY2019 (Previous Year: 5.2%), although it is higher at 16.6% for FY2019 (Previous Year: 14.6%), upon adjusting networth for fair value of investments.
- **High dependence on the commercial vehicle segment** – CV spares contribute to ~65% of IMPAL's overall sales. Passenger vehicle spares contribute to about 20%, while the remaining is derived from tractor and industrial replacement components. This exposes the company to the inherent cyclicity in CV aftermarket component sales (linked to economic cycles).

Liquidity Position: Superior

IMPAL's liquidity is superior with healthy cash flow from operations of Rs. 23.3 crore in FY2019, cash and bank balances and liquid investments of Rs. 227.4 crore as on March 31, 2019 and undrawn working capital limits of Rs. 16.0 crore. In addition, the company also has investments in TVS Group companies – Sundaram Finance Limited, Sundaram Finance Holdings Limited and Royal Sundaram General Insurance Company Limited – with fair value of Rs. 746.6 crore as on

March 31, 2019. In relation to these sources of cash, IMPAL has only negligible capex commitment for FY2020 (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 triggers – ICRA could upgrade IMPAL’s ratings if it achieves material improvement in its scale of operations and profitability while maintaining its strong credit profile.

Negative triggers – 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 on sustained basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidation

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 (stable)/[ICRA]A1+) that holds 21.87% stake. Sundaram Finance Holdings Limited holds 18.52% stake in the company (as on December 31, 2019).

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	479.1	524.2
PAT (Rs. crore)	31.1	41.2
OPBDIT/ OI (%)	7.4%	8.3%
RoCE (%)	5.2%	5.9%
Total Outside Liabilities/ Tangible Net Worth (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.5	0.3
Interest coverage (times)	NA	NA
Debt Service Coverage Ratio (times)	NA	NA

Source: Company, BSE, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				Jan 31, 2020	Oct 05, 2018	Aug 04, 2017	Aug 09, 2016	
1 Fund-based facilities	Long Term	16.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2 Non-Fund based facilities	Long Term	0.25	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3 Non-Fund based facilities (sub limit)	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 www.icra.in

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	-	-	-	16.00	[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 consolidation

Company Name	Ownership	Consolidation Approach
CAPL Motors Private Limited – Subsidiary	90.00%	Full consolidation
Transenergy Limited - Associate	35.26%	Equity method

Source: India Motor Parts and Accessories Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4314

pavethrap@icraindia.com

Vinutaa S

+91 44 4596 4305

vinutaa.s@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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