

January 03, 2023

Trichur Sundaram Santhanam & Family Private Limited: Ratings assigned

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to the bank lines of Trichur Sundaram Santhanam & Family Private Limited ('TSSFPL'/'company') considers its strong operational profile acting as a key dealer for Mercedes-Benz and Volkswagen, strong market share in the regions it operates, established presence in the after-market and spare distribution businesses, and stable demand outlook for the domestic automotive segment. TSSFPL's financial profile is strong characterized by healthy profit margins from its operations, stable dividend inflows, robust debt protection metrics and strong liquidity position. The ratings also consider the significant financial flexibility derived from TSSFPL's investment portfolio, sizeable value of its land bank, and robust credit profile of the investee companies—namely, Brakes India P Limited, India Motor Parts Limited and Wheels India Limited. These strengths are, however, offset by the moderate scale of operations with operations largely confined to South India, vulnerability of the company's revenues and earnings to the cyclicity in the automotive industry and inherently competitive nature of the business, especially in the spare parts distribution business with consequent pricing pressures.

Key rating drivers and their description

Credit strengths

Established presence in the automotive dealership business – Following the re-organisation of the TVS Group (as per the composite scheme of amalgamation and arrangement approved by NCLT with effect from February 4, 2022), the ownership and management of various entities of the TVS Group were aligned with specific family groups. As part of the restructuring, the operations, fixed assets, shareholding, and investments of TV Sundaram Iyengar & Sons Private Limited were demerged into the respective family groups. Post restructuring, TSSFPL formed part of the TS Santhanam family group and it inherited the parts distribution business as well as the Volkswagen and Mercedes-Benz dealership operations apart from its share of fixed and investment assets. 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 a change in the business model of the dealership business for Benz, wherein the invoicing is done by Benz while the dealership operations are handled by TSSFPL. It entails enhanced transparency in the overall sales process, limited stock holding risk and working capital dependence, etc. Coupled with the favourable demand for the luxury car segment, this augers well for the company. In the parts dealership business, it commands an established presence across the country. Going forward, parts revenues shall remain supported by stable demand growth, diversified product portfolio, established relationships with component suppliers and penetration into newer markets.

Strong financial and investment profiles – TSSFPL was operational for two months in FY2022 (effective date of restructuring: February 4, 2022). For this period, it reported revenues of Rs. 169.4 crore with operating and net profit margins of 9.6% and 6.8%, respectively. As of March 2022, its total debt was Rs. 40.8 crore with cash and bank balances of Rs. 172 crore. TSSFPL is expected to generate revenues of over Rs. 1,200 crore in FY2023 with healthy margins as well as continued comfortable debt

protection metrics and strong liquidity. Going forward, TSSFPL's revenues and earnings shall remain supported by favourable automotive demand, commission-based business model for the Benz dealership and strong cash reserves.

TSSFPL also enjoys strong financial flexibility from its investment portfolio. As on December 16, 2022, the market value of quoted investments in India Motor Parts Limited and Wheels India Limited was around Rs. 630 crore. In addition, the fair value of its investments in its subsidiary (Brakes India Private Limited) is significantly higher than the original cost of investment. ICRA notes that the investments are strategic in nature and unlikely to be liquidated in the near term. Also, the investee companies have a robust credit profile and do not require any funding support from TSSFPL. It also holds a land bank in South India, with flexibility to monetise the same or utilise the same for expansion of its dealership business.

Credit challenges

Moderate scale and vulnerability of earnings to cyclicality in automotive industry – In the vehicle dealership business, TSSFPL's operations are currently restricted to two OEMs and two states, thus restricting its overall growth potential. Also, with its standalone operations and investee companies operating in the automotive industry, its earnings and cash flows are exposed to the vagaries of domestic auto industry cycles. Nevertheless, the domestic auto demand outlook is favourable for the near to medium term, thus supporting the company's financial profile.

Competition in the spare parts distributions business – Inherent to the nature of its business, the parts distribution segment is competitive and, hence, faces pricing pressure from other original equipment spares and other organised and unorganised players. ICRA notes that the company is relatively insulated, given its extensive experience, diversified product offerings and a pan India presence.

Liquidity position: Strong

TSSFPL's liquidity is strong with cash balances of Rs. 232 crore as of September 2022. Its working capital utilisation in the last six months was less than 20% with sizeable undrawn working capital lines. Its strong operational cash flows and financial flexibility with lenders are further upsides.

Rating sensitivities

Positive factors - Sharp improvement in TSSFPL's scale of operations along with improvement in margins and coverage metrics 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Trichur Sundaram Santhanam & Family P Limited is engaged in the dealership, distribution and service of automotive vehicles and spare parts across the country. In the vehicle dealership segment, it sells Mercedes-Benz in Tamil Nadu and Karnataka, and Volkswagen 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.

Key financial indicators (audited)

	FY2021	2M FY2022
Operating income	-	169.4
PAT	-	11.5
OPBDIT/OI	-	9.6%
PAT/OI	-	6.8%
Total outside liabilities/Tangible net worth (times)	-	0.4
Total debt/OPBDIT (times)	-	0.4
Interest coverage (times)	-	27.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Aug 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 03, 2023	-	-	-
1	Long term – Fund based - Cash credit	Long-term	50.00	12.30	[ICRA]AA(Stable)	-	-	-
2	Short term - Fund Based – e-DFS	Short-term	15.00	-	[ICRA]A1+	-	-	-
3	Short term-Non fund based-BG	Short Term	25.00	20.10	[ICRA]A1+	-	-	-
5	Long term/Short term -Unallocated	Long-term/Short Term	20.00	-	[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	-	9.65%	-	50.00	[ICRA]AA(Stable)
NA	Electronic - Dealer Financing Scheme	-	-	-	15.00	[ICRA]A1+
NA	Bank Guarantee	-	7.35%	-	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 – Not Applicable

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