April 02, 2024

India Motor Parts & Accessories Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	70.00	70.00	[ICRA]AA (Stable); reaffirmed
Short-term – Fund-based – (sub limit)	(60.00)	(60.00)	[ICRA]A1+; reaffirmed
Total	**70.00**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for the bank lines of India Motor Parts & Accessories Limited (IMPAL) considers ICRA's expectation of a sustained financial performance by the company aided by its 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. The T S Santhanam Group (TSF 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 December 31, 2023). Although IMPAL does not require financial support, it enjoys strong financial and operational flexibility as part of the TSF Group.

The company remains 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 free cash and liquid investments of Rs. 36.2 crore as of December 31, 2023. In addition, it had Rs. 126.2 crore in mutual funds with tenor more than a year, as on December 31, 2023. Further, it has long-term investments in other Group companies, fair valued at over Rs. 1,700.0 crore as on December 31, 2023. The company is expected to remain net debt negative over the medium term with sizeable cash and liquid investments.

IMPAL is a moderate-scaled player with an operating income of Rs. 725.9 crore in FY2023 and Rs. 562.6 crore for 9M FY2024. Also, its sizeable dependence on commercial vehicle (CV) spares exposes it to the inherent cyclicality 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 reported an operating margin of 7.5% in 9M FY2024. Its return on capital employed (RoCE) was low at 6.9% for FY2023, although upon adjusting net worth for fair value of investments, the same was higher at 18.3% for FY2023.

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 of more than 80 branches and 18,000 dealers. IMPAL's product portfolio is diverse, consisting 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.

Significant cash and liquid investments and market value of long-term investments; negligible utilisation of working capital lines over the last several years – IMPAL remained net debt negative as on December 31, 2023, with free cash and and liquid investments of Rs. 36.2 crore and undrawn working capital limits of Rs. 70.0 crore. It has had negligible utilisation of its working capital lines in the past several years. In addition, it had Rs. 126.2 crore in mutual funds with tenor more than a year, as on December 31, 2023. Further, it has long-term investments in other Group companies, fair valued at over Rs. 1,700 crore as on December 31, 2023. Being an asset-light company, IMPAL's capex is expected to remain negligible over the medium term, akin to past trends. ICRA expects the company to remain net debt negative over the medium term, with sizeable cash balance/liquid investments and non-current investments.

Financial and operational flexibility as part of T S Santhanam Group – IMPAL enjoys strong operational and financial flexibility as part of the T S Santhanam Group (TSF 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 (rated [ICRA]AA+ (Stable)/[ICRA]A1+) as on December 31, 2023. Apart from this, Sundaram Finance Holdings Limited also held 20.0% stake in the company as on December 31, 2023.

Credit challenges

Trading nature of operations and stiff competition limit pricing flexibility – IMPAL's revenues remain moderate, at sub Rs. 800 crore. For 9M FY2024, the company's revenues stood at Rs. 562.4 crore (against Rs. 556.1 crore in 9M FY2023, a YoY growth of 1.2%). The lower realisation with periodic revisions in prices because of commodity price softening, high base effect and increasing competition from original equipment spares (OES) resulted in modest topline growth during 9M FY2024. 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, which restricts its pricing flexibility and margins. The company reported an operating margin of 7.5% in 9M FY2024. Its return on capital employed (RoCE) was low at 6.9% for FY2023, although upon adjusting net worth for fair value of investments, the same was higher at 18.3% for FY2023.

Sizeable dependence on the commercial vehicle segment – CV spares generated close to 60% of IMPAL's overall sales in 9M FY2024. This exposes the company to the inherent cyclicality in CV aftermarket component sales (linked to economic cycles). While the increasing revenue share from passenger vehicles (PVs), tractor and other consumables mitigates the risk to an extent, IMPAL's revenues remain susceptible to the CV industry slowdown.

Environmental and Social Risks

Environmental considerations – The company, being a distributor, remains indirectly exposed to climate-transition risks and regulatory risk by virtue of its suppliers remaining exposed to the same, as automotive OEMs migrate to alternative powertrains. Further, IMPAL's branches and warehouses are exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances.

Social considerations – IMPAL is dependent on its suppliers for providing quality products to serve customers with minimal product recalls or quality failures. However, its history of serving quality products with minimal product recalls, provides comfort. The company is also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles (EV), scrappage policy and replacement of vehicles, and societal trends like the preference for ride-sharing.

Liquidity position: Strong

IMPAL's liquidity is strong with healthy cash flow from operations, free cash and liquid investments of Rs. 36.2 crore and undrawn working capital limits of Rs. 70.0 crore as on December 31, 2023. In addition, it had Rs. 126.2 crore in mutual funds with tenor more than a year, as on December 31, 2023. The company also has over Rs. 1,100 crore of investments in listed

Group companies. In relation to these sources of cash, IMPAL has only negligible capex commitment over the medium term (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 Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of subsidiary provided in Annexure-II.

About the company

Incorporated in 1954, IMPAL is a leading player in the distribution of automotive spare parts and accessories in India. IMPAL was jointly incorporated by TV Sundaram Iyengar & Sons Limited and Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/[ICRA]A1+) in 1954. However, post the TVS Group restructuring, the company became part of the T S Santhanam faction, with Trichur Sundaram Santhanam & Family Private Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+) holding 21.87% stake currently. The promoters own 30.71% stake in the company. SFHL holds 20.0% stake as of December 31, 2023. From distribution of spares and accessories of General Motors (GM), over the years the company has diversified into distribution of spares for all major OEMs, particularly in the commercial vehicle and PV segments.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	646.1	725.9
PAT	57.5	75.1
OPBDIT/OI	9.1%	8.8%
PAT/OI	8.9%	10.4%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	365.8	6,420.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 02, 2024	Apr 06, 2023	May 19, 2022	Apr 09, 2021
1	Fund-based facilities	Long Term	70.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-Fund based facilities	Long Term	-	-	-	-	-	[ICRA]AA (Stable)
3	Fund-based facilities (sub limit)	Short Term	(60.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Non-Fund based facilities (sub limit)	Short term	-	-	-	-	-	[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 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	**Long-term fund based**	NA	NA	NA	70.00	[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 II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
CAPL Motors Private Limited – Subsidiary	100.00%	Full Consolidation

Source: Company

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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

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