

## Rating Rationale

May 31, 2023 | Mumbai

### Imperial Auto Industries Limited

Ratings reaffirmed at 'CRISIL A+/Stable/CRISIL A1'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.315.94 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A+/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Reaffirmed)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A+/Stable/CRISIL A1' ratings on the bank facilities of Imperial Auto Industries Limited (IAIL).

The ratings continue to reflect sustained improvement in the business profile, as indicated by better-than-industry growth in the past few fiscals, which is expected to continue over the medium term. The company's robust financial profile is backed by healthy liquidity and capital structure.

Consolidated operating income is estimated to have increased to Rs. 3,094 Crs. in fiscal 2023 against Rs. 2,172 Crs. in fiscal 2022 (42% growth). Operating income in fiscal 2022 had grown against Rs.1,658 Crs. in fiscal 2021 (31% growth).

The revenue growth is driven by diversified segmental presence across automotive and industrial components, growing presence in exports market, long standing relationship with customers as well as scale up of subsidiaries. The company has grown at strong a CAGR of 15% over last 5 years till fiscal 2023, despite industry headwinds. Going forward, operating incomes are estimated to grow at healthy double digits driven by improving customer diversity, sustained healthy diversity in end user OEM segments, and increasing share of exports. Exports have scaled up to ~Rs. 727 Crs. for fiscal 2023 (26% of standalone sales) against Rs. 475 Crs. for fiscal 2022 (24% of standalone sales) and Rs. 331 Crs. for fiscal 2021 (22% of standalone sales).

Earlier, in March, 2022, IAIL had announced that Stone Plant Investments B.V. (an affiliate of Warburg Pincus LLP) has acquired a majority stake in IAIL (70% at March 31, 2023). As a part of the transaction, one of the promoter families (Mr. Sardana) has completely exited IAIL while Mr. Jagjit Singh's family continue to hold a minority stake (30% at March 31, 2023).

While the operating profitability is expected to be temporarily moderated to about 10.6% in fiscal 2023 against 13.0% in fiscal 2022 due to spike in raw material prices which has been passed on to the customers with a lag, it is expected to recover to previous levels over the medium term, with increasing exports proportion, diverse product offerings, margin accreting subsidiary operations supporting operating profitability. As a result, IAIL is expected to generate net cash accruals of over Rs 300-400 crore in the medium term. Going forward, recovery to and sustenance of operating margins at previous levels are key monitorables.

The financial profile remains healthy with gearing estimated below 0.4 time in fiscal 2023 and adequate liquidity in the form of unutilised bank lines of over Rs 70 crore and cash and cash equivalents of over Rs. 30 crore at March 31, 2023. The debt protection metrics are expected to remain comfortable over the medium term with increase in operating profits and moderate capital expenditure (capex) despite increase in incremental working capital debt due to higher exports. Total debt is expected to remain below Rs 400 crore by end of fiscal 2023, against Rs 305 crore in fiscal 2022. Interest coverage ratio is estimated at about 15 times in fiscal 2023, compared to 14.7 times in fiscal 2022. Gearing is expected to remain below 0.4 time in the near term and improve thereafter to below 0.3 as debt is repaid progressively. Any higher-than-expected capex or steep moderation in credit metrics on account of slowdown in the auto industry, will remain a key monitorable.

The ratings reflect the company's established position in the auto components industry, its diversified revenue profile and comfortable financial risk profile. These strengths are partially offset by large working capital requirement and susceptibility to cyclicity faced by OEMs in the auto industry.

#### Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of IAIL and its wholly owned subsidiaries. This is because all these companies are in the same business and have common management.

## **Key Rating Drivers & Detailed Description**

### **Strengths:**

**Healthy business risk profile:** Track record of over 45 years in the auto components industry has helped IAIL build healthy relationships with leading OEMs, such as Tata Motors Ltd ('CRISIL AA/Stable/CRISIL A1+'), Mahindra and Mahindra Ltd ('CRISIL AAA/Stable/CRISIL A1+'), Tata Cummins Pvt Ltd, JCB India Ltd, Ashok Leyland Ltd and John Deere India Pvt Ltd. The top three customers accounted for around 35% of total revenue in fiscal 2023. The product portfolio comprises various applications across commercial and passenger vehicles, and tractor segments. The sole supplier status for most products has enabled the company to establish a strong market position and play a critical role in the supply chain. Its ability to pass on any hike in key raw material prices to customers, also supports the business.

The revenue profile has become more diversified with increase in share of exports in standalone sales to around 26% in fiscal 2023 from 18% in fiscal 2019. There exists a healthy diversity in end user segment with top 5 customers contributing around 50% of total revenue. IAIL is expected to show a healthy CAGR growth of 10-15% over the medium term with healthy demand from OEMs leading to increase in scale of operations to over Rs 4,000 crore over next 3 fiscals.

**Comfortable financial risk profile:** Gearing is expected to be at 0.4 times as on March 31, 2023, from 0.3 times as on March 31, 2022. Higher operating profits are expected to increase cash accrual to over Rs 240 crores and lead to increase in interest coverage ratio to around 15 times for fiscal 2023, from 6.7 times in fiscal 2020. The net worth is expected to increase to over Rs 1,050 crore in fiscal 2023 backed by increase in cash accruals keeping capital structure healthy. The net cash accruals of Rs 300-400 crore will be sufficient to meet capex requirements of Rs 80-100 crore and term debt repayment obligations of Rs. 30-40 crore over the medium term. As a result, the financial risk profile is likely to remain healthy, aided by sufficient cash flow and modest capex.

Acquisition of small companies, if any, will be funded prudently, and debt-servicing indicators and liquidity should remain healthy. Any major increase in debt due to capex/acquisitions/other transactions is a key monitorable.

### **Weaknesses:**

**Large working capital requirement:** Gross current assets were above 150 days on average, for the four fiscals ended March 31, 2023, leading to reliance on short-term debt. Receivables and inventory are estimated to be high at over 81 days and 82 days, respectively, as on March 31, 2023, against 80 days and 104 days, respectively, a year earlier. Though working capital requirement will be sizeable over the medium term, the risk is mitigated by healthy credit quality of receivables, and inventory risk largely being borne by customers.

**Susceptibility to inherent cyclicality in the auto industry:** IAIL derives its entire revenue from the OEM segment, which is inherently cyclical. Auto OEMs were earlier adversely hit by the Covid-19 pandemic as well as slowdown in the Indian economy in fiscal 2021. However, with improved demand and recovery in economic activity the performance of auto industry is expected to improve over the medium term. While IAIL's annual revenue has recorded compounded annual growth rate (CAGR) of 15% over the five fiscals through fiscal 2023, performance remains vulnerable to economic downturns.

### **Liquidity: Strong**

CRISIL Ratings expects net cash accruals (NCA) of Rs 300-400 crore over the medium term, which should amply cover term debt repayment obligations of Rs 30-40 crores per annum, as well as moderate capex requirements of Rs 80-100 crores per annum over the medium term. Further, fund based bank limits of Rs 216 crore was utilised at 64% on average for the 12 months through March, 2023 while the cash & equivalents stood at Rs 35 crore at March 31, 2023.

### **Outlook: Stable**

CRISIL Ratings believes IAIL's credit profile continues to benefit from improvement in revenue scale and financial risk profile

### **Rating Sensitivity factors**

#### **Upward factors:**

- Sustained improvement in scale, diversity, and profitability, reflecting better than industry performance with addition of new customers, or increase in the wallet share of existing customers, with operating profitability above 13%.
- Sustenance of financial risk profile with strong debt protection metrics, improvement in liquidity, and improved working capital cycle.

#### **Downward factors:**

- Substantial decline in revenues and profitability, leading to consolidated operating margins below 9-10% on sustained basis.
- Weakening of capital structure (gearing increasing above 0.80-1.00 times) due to large debt funded capex or acquisitions or weaker than expected operating performance
- Deterioration in liquidity, due to increase in working capital requirements.

### **About the Company**

IAIL was set up as a partnership firm by Mr Jagjit Singh and Mr S B Sardana in 1969 and reconstituted as a private limited company in 1975. It manufactures fluid and gas transmission products for the auto and off-highway sectors, such as defence, railways, agriculture and earthmoving machinery. Products include pipes and hoses used in passenger and commercial vehicles.

Stone Plant Investments B.V. (an affiliate of Warburg Pincus LLP) has acquired a majority stake (70% holding at March 31, 2023) in IAIL. As a part of the transaction, one of the promoter families (Mr Sardana) has completely exited IAIL while Mr Jagjit Singh's family continue to hold a minority stake (30% holding at March 31, 2023).

**Key Financial Indicators (consolidated)**

Particulars	Unit	2022	2021
Revenue	Rs crore	2,172	1,658
Profit after tax (PAT)	Rs crore	111	131
PAT margin	%	5.1	7.9
Adjusted debt/Adjusted networkth	Times	0.34	0.29
Interest coverage	Times	14.7	13.3

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	212	NA	CRISIL A+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	8.5	NA	CRISIL A1
NA	Term Loan	NA	NA	Sep-26	95.44	NA	CRISIL A+/Stable

\* Fully interchangeable with post shipment loan

**Annexure – List of entities consolidated**

Name of entities	Extent of consolidation	Rationale for consolidation
IAI Industries Ltd	Full	Strong managerial, operational and financial linkages
Imperial Auto USA Corporation	Full	Strong managerial, operational and financial linkages
SB Rohrform GmbH Ltd	Full	Strong managerial, operational and financial linkages
SJ Rubber Industries Ltd	Full	Strong managerial, operational and financial linkages
Imperial Martor Engine Tubes Pvt Ltd	Full	Strong managerial, operational and financial linkages
Tokai Imperial Rubber India Pvt. Ltd.	Partial	Joint venture; proportionate consolidation
Tokai Imperial Hydraulics India Pvt. Ltd.	Partial	Joint venture; proportionate consolidation
Nichirin Imperial Auto Parts India Pvt. Ltd	Partial	Joint venture; proportionate consolidation

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	307.44	CRISIL A+/Stable		--	15-03-22	CRISIL A+/Stable	--	--	29-10-20	CRISIL A/Positive	CRISIL A/Positive
					--	31-01-22	CRISIL A+/Stable	--	--	--	--	
Non-Fund Based Facilities	ST	8.5	CRISIL A1		--	15-03-22	CRISIL A1	--	--	29-10-20	CRISIL A1	CRISIL A1
					--	31-01-22	CRISIL A1	--	--	--	--	

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit <sup>&amp;</sup>	25	Bank of Baroda	CRISIL A+/Stable
Cash Credit <sup>&amp;</sup>	47	Citibank N. A.	CRISIL A+/Stable
Cash Credit <sup>&amp;</sup>	50	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A+/Stable
Cash Credit <sup>&amp;</sup>	50	DBS Bank Limited	CRISIL A+/Stable
Cash Credit <sup>&amp;</sup>	40	HDFC Bank Limited	CRISIL A+/Stable

Letter of credit & Bank Guarantee	2	Bank of Baroda	CRISIL A1
Letter of credit & Bank Guarantee	3.5	Citibank N. A.	CRISIL A1
Letter of credit & Bank Guarantee	3	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1
Term Loan	35	Citibank N. A.	CRISIL A+/Stable
Term Loan	20.44	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A+/Stable
Term Loan	40	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A+/Stable

This Annexure has been updated on 31-May-2023 in line with the lender-wise facility details as on 16-Mar-2023 received from the rated entity

& - fully interchangeable with post shipment loan

## Criteria Details

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Auto Component Suppliers](#)

[CRISILs Criteria for Consolidation](#)

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