

Rating Rationale

March 15, 2022 | Mumbai

Imperial Auto Industries Limited

Ratings reaffirmed

Rating Action

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

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating at 'CRISIL A+/Stable/CRISIL A1' on the long-term bank facilities of Imperial Auto Industries Ltd (IAIL).

On March 08, 2022, IAIL has announced that Stone Plant Investments B.V. (an affiliate of Warburg Pincus LLP) has acquired a majority stake in IAIL. As a part of the transaction, one of the promoter families (Mr Sardana) will completely exit IAIL while Mr Jagjit Singh's family will continue to hold a minority stake on completion of agreement. The Board of IAIL will also be reconstituted with Stone Plant Investments B.V appointing members to the Board. Mr. Tarun Lamba will be on the position of MD cum CEO with Mr. Jagjit Singh working as Director of IAIL. Other key management personnel will continue to head the company and the transaction is not expected to impact the operations of the company. The existing promoters have been looking to divest their stake in IAIL and this was already factored by CRISIL Ratings.

CRISIL Ratings had upgraded its rating on the long-term bank facilities of IAIL to 'CRISIL A+/Stable' from 'CRISIL A/Positive' on January 31, 2022.

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.

In fiscal 2022, the revenue is expected to improve to over Rs 1,800 crore driven by increase in offtake from existing customer, addition of new customers and healthy ramp up of exports. Improving customer diversity, sustained healthy diversity in end user OEM segments, and increasing share of exports are likely to result in producing industry leading growth in the medium term.

While the operating profitability is expected be constrained at 13-13.5% with lag in passing increasing input costs, increasing exports proportion will support operating profitability in the medium term. As a result, IAIL is expected to generate net cash accruals of Rs 175-200 crore in the medium term.

The financial profile remains healthy with gearing below 0.3 time in fiscal 2021 and adequate liquidity in the form of unutilised bank lines of over Rs 100 crore. The debt protection metrics are expected to remain comfortable in fiscals 2022 and 2023 with increase in profitability and moderate capital expenditure (capex) despite increase in incremental working capital debt due to higher exports. Total debt is expected to remain below Rs 250 crore by end of fiscal 2022, against Rs 194 crore in fiscal 2021. Interest coverage ratio is estimated to improve to 16 times in fiscal 2022, compared to 12.6 times in fiscal 2021. Gearing is expected to remain below 0.4 time in the near term and improve thereafter to below 0.25 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 rating sensitivity factor.

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 cyclicalities 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.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

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 2021. 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 total revenue to around 25% in fiscal 2022 from 18% in fiscal 2019. There exists a healthy diversity in end user segment with top 5 customers contributing around 40% of total revenue. Post fiscal 2022, IAIL is expected to show a healthy CAGR growth of 8-10% in the medium term leading to increase in scale of operations to Rs 200-250 crore over next 3 fiscals.

Comfortable financial risk profile: Gearing is expected to be at 0.3 time as on March 31, 2022, from 0.28 time as on March 31, 2021. Higher operating profits are expected to increase cash accrual to over Rs 175 crore and lead to increase in interest coverage ratio to around 16 times for fiscal 2022, from 6 times in fiscal 2020. The net worth is expected to increase to over Rs 800 crore in fiscal 2022 backed by increase in cash accruals keeping capital structure healthy. The net cash accruals of Rs 175-200 crore will be sufficient to meet capex requirements of Rs 70-80 crore in 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 rating sensitivity factor.

Weaknesses:

Large working capital requirement: Gross current assets were above 150 days on average, for the five fiscals ended March 31, 2021, leading to reliance on short-term debt. Receivables and inventory were high at over 88 days and 99 days, respectively, as on March 31, 2021, against 68 days and 85 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 cyclical in the auto industry: IAIL derives its entire revenue from the OEM segment, which is inherently cyclical. Auto OEMs were adversely hit by the ongoing Covid-19 pandemic as well as slowdown in the Indian economy. Growth recovered only from the second half of fiscal 2021. While IAIL's annual revenue has recorded compound annual growth rate of 15% over the five fiscals through 2022, performance remains vulnerable to economic downturns.

Liquidity: Strong

Expected cash accrual of Rs 175-200 crore should amply cover term debt obligation of Rs 30 crore in fiscal 2023, as well as moderate capex of Rs 70-80 crore. Bank limit of Rs 216 crore was utilised at 55% on average for the 12 months through December 2021.

Outlook: Stable

CRISIL Ratings believes improvement in IAIL's credit profile is likely to sustain with recovery in demand from auto OEMs.

Rating Sensitivity factors

Upward factors:

- Sustained and significant improvement in scale, diversity and profitability, reflecting better-than-industry performance on account of addition of new customers or increase in share of business with existing customers, leading to revenue of more than Rs 2,000 crore while maintaining profitability at 13- 15% and annual cash accrual at over Rs 250 crore
- Sustenance of financial risk profile with gearing below 0.5-0.6 time

Downward factors:

- Decline in operating profitability, leading to cash accrual lower than Rs 150 crore
- Weakening of the capital structure (gearing increasing above 0.8-1.0 time) due to large debt-funded capex or acquisition or weaker-than-expected operating performance
- Deterioration in liquidity due to increase in working capital requirement

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 is now a closely held public limited company that 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.

During the six months ended September 30, 2021, the company posted operating profit of Rs 108 crore (Rs 60 crore for the corresponding period of previous fiscal) on net sales of Rs 918 crore (Rs 540 crore).

Key Financial Indicators (consolidated)

| Particulars | Unit | 2021 | 2020 |
|----------------------------------|----------|------|------|
| Revenue | Rs crore | 1561 | 1505 |
| Profit after tax (PAT) | Rs crore | 111 | 83 |
| PAT margin | % | 7.1 | 5.5 |
| Adjusted debt/Adjusted networkth | Times | 0.28 | 0.46 |

| | | | |
|-------------------|-------|------|-----|
| Interest coverage | Times | 12.6 | 6.4 |
|-------------------|-------|------|-----|

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity level | Rating assigned with outlook |
|------|-------------------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA | Cash credit* | NA | NA | NA | 212 | NA | CRISIL A+/Stable |
| NA | Letter of credit and bank guarantee | NA | NA | NA | 8.5 | NA | CRISIL A1 |
| NA | Term loan | NA | NA | Feb-21 | 95.44 | NA | CRISIL A+/Stable |

* Full interchangeable with post shipment loans

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 |
| Imperial Silicon Pvt 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 |
| Nichrin Imperial Autoparts India Private Limited | Partial | Joint venture; proportionate consolidation |

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|---------------------------|------|--------------------|------------------|----------------|------------------|------|--------|----------|-------------------|----------|-------------------|-----------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 307.44 | CRISIL A+/Stable | 31-01-22 | CRISIL A+/Stable | | -- | 29-10-20 | CRISIL A/Positive | 17-09-19 | CRISIL A/Positive | CRISIL A/Stable |
| | | | | | | | | | | 31-07-19 | CRISIL A/Positive | -- |
| Non-Fund Based Facilities | ST | 8.5 | CRISIL A1 | 31-01-22 | CRISIL A1 | | -- | 29-10-20 | CRISIL A1 | 17-09-19 | CRISIL A1 | CRISIL A1 |
| | | | | | | | | | | 31-07-19 | CRISIL A1 | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Rating |
|-----------------------------------|-------------------|------------------|
| Cash Credit& | 25 | CRISIL A+/Stable |
| Cash Credit& | 47 | CRISIL A+/Stable |
| Cash Credit& | 50 | CRISIL A+/Stable |
| Cash Credit& | 50 | CRISIL A+/Stable |
| Cash Credit& | 40 | CRISIL A+/Stable |
| Letter of credit & Bank Guarantee | 2 | CRISIL A1 |
| Letter of credit & Bank Guarantee | 3.5 | CRISIL A1 |
| Letter of credit & Bank Guarantee | 3 | CRISIL A1 |
| Term Loan | 35 | CRISIL A+/Stable |
| Term Loan | 20.44 | CRISIL A+/Stable |
| Term Loan | 40 | CRISIL A+/Stable |

& - fully interchangeable with post shipment loans

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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