CRISIL Ratings

Rating Rationale

April 01, 2024 | Mumbai

Imperial Auto Industries Limited

Ratings upgraded to 'CRISIL AA-/Stable/CRISIL A1+'

Rating Action

Total Bank Loan Facilities Rated	**Rs.315.94 Crore**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Stable')**
Short Term Rating	**CRISIL A1+ (Upgraded from 'CRISIL A1')**

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 upgraded its ratings on the bank facilities of Imperial Auto Industries Ltd (IAIL) to '**CRISIL AA-/Stable/CRISIL A1+**' from 'CRISIL A+/Stable/CRISIL A1'.

The upgrade in ratings factors in the company's improving business risk profile, aided by double digit revenue growth momentum expected to be maintained over the medium term while sustaining operating margins at healthy levels of 11-12% along with strong ROCE of 18-20%. The ratings also factor in IAIL's established position in the auto components industry, a diversified segmental presence across automotive (auto) and industrial components, growing presence in exports market, and a strong financial risk profile backed by healthy liquidity and capital structure. These strengths are partially offset by large working capital requirement and susceptibility to cyclicality faced by OEMs in the auto industry.

During the first six months of current fiscal, company recorded consolidated operating income of Rs 1,682 crore and is expected to be over ~Rs. 3,400 crore this fiscal from Rs 3,098 crore recorded in fiscal 2023 (Fiscal 2022: Rs. 2,172 crore). The company's revenue has increased at a compound annual growth rate (CAGR) of 21% over the five fiscal through 2024 supported by increasing wallet share with existing customer, scale up of subsidiaries, expanding presence in export segment and new product launches. Exports scaled up to about Rs 740 crore in fiscal 2023 as against Rs 475 crore in fiscal 2022 (22%) and is expected to sustain current levels this and the next fiscal despite ongoing global headwinds.

Operating margin is expected to be maintained at 11-12% for the current fiscal (11.2% in fiscal 2023) led by company's ability to pass on fluctuations in raw material prices to customers albeit with a lag. Profitability is expected to be sustained at existing levels over the medium term, with stable gross margins, benefits of operating leverage and further scale up of margin-accretive subsidiary operations. With increasing scale and healthy operating margins, net cash accrual is expected to cross Rs 300 crore over the medium term. The company's working capital cycle has also improved due to streamlining of inventory day to 80-85 days as against ~100 days in fiscal 2022, which is expected to lead to significant improvement in cash flow from operations as well as free operating cash flows over the medium term.

The financial risk profile remains healthy, with gearing expected at 0.3-0.4 time over the medium term (Gearing as on September 30, 2023: 0.34 times). Debt protection metrics too will remain comfortable, with increase in operating profits and no material addition in overall debt levels amidst moderate capex requirements of Rs. 160-180 crore per annum. Total debt is expected to remain below Rs 400 crore by end of fiscal 2024 and over the medium term, against Rs 412 crore on March 31, 2023. Interest coverage ratio estimated at over 10-12 times in fiscal 2024, is expected to sustain at similar levels going forward. Any higher-than-expected capex or steep moderation in credit metrics on account of slowdown in the auto industry, will remain monitorable.

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% on March 31, 2023). As a part of the transaction, one of the promoter families (Mr S.B. Sardana and family) exited IAIL while Mr Jagjit Singh and his family continue to hold a minority stake (30% on March 31, 2023).

Analytical Approach

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/Positive/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 less than 35% of total revenues during H1-fiscal 2024 and 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 also supports the business.

The revenue profile has become more diversified, with increase in share of exports in consolidated sales to around 24% in fiscal 2023 from 13% in fiscal 2019.Revenue is likely to increase at double digits over the medium term with healthy demand from OEMs, leading to turnover of more than Rs 4,000 crore over the medium term.

Comfortable financial risk profile

Gearing is expected at 0.3-0.4 times as on March 31, 2024. Higher operating profit should result in cash accrual of more than Rs 300 crore and interest coverage ratio of around 14 times for fiscal 2024. Networth is expected at over Rs 1,200 crore in fiscal 2024, backed by increase in cash accrual. Net cash accrual – projected at Rs 300-400 crore per annum over the medium term -- will be sufficient to meet capex of Rs 160-180 crore per fiscal and yearly debt repayment obligation of Rs 40-50 crore over the medium term. Strong financial risk profile should sustain supported by healthy cash flows and moderate 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/acquisition/other transaction is a key monitorable.

Weakness:

Large working capital requirement

Gross current assets were above 160 days during the three fiscals ended March 31, 2023, leading to reliance on short-term debt. Receivables stood at 77 days as on March 31, 2023 (against 80 days a year ago) and inventory at 83 days (104 days). Gross current assets came down to ~156 days at September 30, 2023, albeit still remaining elevated against levels of ~130-140 days seen prior to fiscal 2020.

The company's working capital cycle has also improved due to streamlining of inventory day to 80-85 days as against ~100 days in fiscal 2022, which is expected to lead to significant improvement in cash flow from operations as well as free operating cash flows over the medium term. Though working capital requirement remain sizeable, 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 a major portion of its revenue from the auto 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 recorded a CAGR of ~20% over the five fiscals through 2024, performance remains vulnerable to economic downturns.

Liquidity: Strong
Net cash accrual is projected at Rs 300-400 crore per annum, which should amply cover yearly debt repayment obligation of Rs 40-50 crore and moderate capex requirement of Rs 160-180 crore per fiscal over the medium term. Further, the fund-based bank limit of Rs 237 crore was utilised at about 63% for the 12 months through January 2024 while the cash & equivalents stood at Rs 63 crore on September 30, 2023.

Outlook: Stable
IAIL's revenue will grow at a steady pace over the medium term, along with steady profitability, supported by its diversified product mix and established customer base. The financial risk profile should remain healthy, supported by growth in cash accrual, and moderate capex.

Rating Sensitivity Factors
Upward Factors
- Significant and sustained improvement in scale, diversity and profitability, reflecting better-than-industry performance with operating profitability above 13-14%
- Sustenance of financial risk profile, with strong debt protection metrics, improvement in liquidity and improved working capital cycle

Downward Factors
- Substantial decline in revenue and profitability, leading to consolidated operating margin below 9% on a sustained basis
- Weakening of capital structure (gearing increasing above 0.7-0.8 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 into 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 as on March 31, 2023) in IAIL. As a part of the transaction, one of the promoter families (the Sardana family) exited IAIL while Mr Jagjit Singh's family continues to hold a minority stake (30% holding on March 31, 2023).

Key Financial Indicators (Consolidated)

Particulars	Unit	2023	2022
Revenue	Rs crore	3,098	2,172
Profit After Tax (PAT)	Rs crore	157	111
PAT Margin	%	5.1	5.1
Adjusted debt/adjusted networth	Times	0.39	0.34
Interest coverage	Times	12.8	14.7

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 level	Rating assigned with outlook
NA	Cash credit*	NA	NA	NA	192	NA	CRISIL AA-/Stable
NA	Letter of credit and bank guarantee	NA	NA	NA	8.5	NA	CRISIL A1+
NA	Term loan	NA	NA	25-Sep-2026	34	NA	CRISIL AA-/Stable
NA	Term loan	NA	NA	30-Jun-2027	81.44	NA	CRISIL AA-/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
Imperial Auto Germany GmbH	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

	Current				2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	307.44	CRISIL AA-/Stable		--	31-05-23	CRISIL A+/Stable	15-03-22	CRISIL A+/Stable		--	CRISIL A/Positive
			--		--		--	31-01-22	CRISIL A+/Stable		--	--
Non-Fund Based Facilities	ST	8.5	CRISIL A1+		--	31-05-23	CRISIL A1	15-03-22	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*	**25**	**Bank of Baroda**	**CRISIL AA-/Stable**
Cash Credit*	**47**	**Citibank N. A.**	**CRISIL AA-/Stable**
Cash Credit*	**75**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA-/Stable**
Cash Credit*	**30**	**HDFC Bank Limited**	**CRISIL AA-/Stable**
Cash Credit*	**15**	**ICICI Bank Limited**	**CRISIL AA-/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	**34**	**Citibank N. A.**	**CRISIL AA-/Stable**
Term Loan	**81.44**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA-/Stable**

**Fully interchangeable with post shipment loan*

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]()
[Rating criteria for manufaturing and service sector companies]()

CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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