September 26, 2022

Jubilant Motorworks Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based Limits (Cash Credit/Overdraft Limits)	23.20	61.20	[ICRA]A-(Stable); Reaffirmed
Short-term Fund Based Limits (Overdraft Limits)	38.00	-	-
Short-term fund-based limits (Inventory funding)	277.50	277.50	[ICRA]A2+; Reaffirmed
Short-term Non-fund-based limits (Bank Guarantee)	19.50	19.50	[ICRA]A2+; Reaffirmed
Short-term unallocated limits	6.00	6.00	[ICRA]A2+; Reaffirmed
Total	**364.20**	**364.20**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Jubilant Motorworks Private Limited and its two subsidiaries, while assigning the above credit ratings (together referred to as JMPL or the company), given the common management team and significant operational and financial linkages between the entities.

The ratings assigned to JMPL takes into consideration its established presence in the automobile dealership industry with tie-up with reputed principals—Audi and MG Motors in the passenger vehicle (PV) segment. The ratings also favourably factor in the company's strong parentage, with its entire shareholding held by the Jubilant Bhartiya Group (JBG) and the Group's demonstrated track record of extending timely financial support to the company. Its strong parentage also lends JMPL strong financial flexibility to negotiate favourable terms with lenders.

Till March 2022, JMPL was a 100% subsidiary of Jubilant Consumers Private Limited (JCPL; rated [ICRA]A+(Stable)). However, JCPL has since sold-off its stake in the business to its promoters, the Bhartiya family-owned trusts. Nonetheless, given the continuation of financial support (as inter-corporate deposits and corporate guarantee extended from JCPL to JMPL for all the latter's working capital facilities) and JMPL's strategic importance, ICRA expects JCPL to continue to extend financial support to JMPL.

JMPL is the automotive business arm for JBG, under which the Group operates dealerships for Audi and MG Motors in select cities across South and West India. JMPL is the largest authorised dealer for Audi in India with a wide sale network of seven showrooms, eight workshops/service centres and six warehouses across Bangalore, Mangalore, Mumbai, Chennai, Pune, Nashik, and Goa. The company had earlier been present in dealerships for Lamborghini, Porsche, and Maserati as well, which were exited due to limited financial viability (over the years FY2019-FY2021). JMPL entered into exclusive agreement for distribution of MG Motor cars in Karnataka in 2019 and currently has eight showrooms (and seven to eight workshops) across Bangalore, Mangalore, and Udupi. In FY2021, JMPL, vide its 100% subsidiary, Jubilant Performance Cars Private Limited (JPCPL), entered the used-car sales business under its in-house brand, "The Cars Collective (TCC)".

Despite the pandemic and semiconductor chip shortage issues faced by the PV industry in FY2022, JMPL (at a consolidated level) reported growth in both volumes (19% excluding used cars; 52% including the same) and earnings (47% YoY). The profitability was also supported by one-time incentives offered by the OEMs (offered in FY2020-FY2022). The overall business is expected to gain pace, going forward, aided by—a) several model launches planned by Audi (after a span of 2-3 years) and scale up of new dealerships in Goa, Mumbai, and Nashik (acquired during the pandemic); b) incremental revenues from MG Motor dealerships that were impacted in FY2022 due to lockdowns in China; and c) scale up and stabilisation of used car businesses. Even as the corporate guarantee from JCPL for the working capital debt availed by JMPL and its subsidiaries is expected to continue, an improved scale of operations for the dealership business is likely to help limit the dependence of the same on any funding support from JCPL.

The ratings, however, are constrained by the weak capital structure and debt coverage indicators with gearing of 14.3 times as on March 31, 2022 (however, external debt[1]/TNW of 6.3x), and total debt/OPBDITA of 6.8 times (external debt/OPBDITA of 3x) in FY2022. The ratings are also constrained by the company's low profitability margin owing to the dealership nature of the business, loss-making used cars vertical and intense competition from various original equipment manufacturers (OEMs). Further, the ratings are also impacted by the regional concentration of company's revenues, primarily from Karnataka.

The Stable outlook on the long-term rating reflects ICRA's opinion that JMPL will maintain its credit profile, benefiting from its status as a JBG company and continued support from the promoters, established presence in the auto dealership business, established relationship with Audi and growing business from MG Motors.

Key rating drivers and their description

Credit strengths

Part of JBG with demonstrated track record of extending financial support – As part of JBG, which has extensive presence across diverse industries, JMPL benefits from the rich experience of its promoters and management. The Group has been providing financial support to JMPL in terms of equity infusion and inter-corporate loans (ICD). As on July 31, 2022, outstanding ICDs from JCPL stood at Rs. 57 crore to partly support JMPL's funding requirements. JCPL has also extended corporate guarantees for the working capital facilities availed by JMPL and its subsidiaries. ICRA expects need-based support from JCPL and/or JBG will continue for JMPL and support its credit profile.

Established market position with significant share of OEM business – The Group entered the auto dealership business in 2006 (under Jubilant Enpro Private Limited). Over the past decade, it has established a strong market position in the industry with exclusive dealerships for Audi and MG Motors in several southern and western Indian markets. The company's business profile is also augmented by the longstanding relationship with the principle, Audi. ICRA believes that any risk of the principal offering/ cancelling dealerships is low as JMPL has demonstrated a healthy growth record over the years and accounts for a healthy share of the OEM's domestic sales.

Credit challenges

Moderate financial risk profile – Given the nature of the dealership business, the commission on vehicle sales, spares, and service, etc, are decided by the principal, resulting in thin profitability margins. The company ventured into the used car business in 2020, which is yet to yield returns. Moreover, JMPL's net worth—at ~Rs. 21 crore as on March 31, 2022—is very low due to significant accumulated losses, leading to a weak capital structure (TOL/TNW of >17x). Against the same, the company had external debt of Rs. 134 crore as on March 31, 2022, primarily to fund the inventory. The high debt has led to moderate debt protection metrices with interest cover of 1.6x as on March 31, 2022 (PY: 1.7x). Ramp up in scale of operations, led by new product launches and easing of chip-shortage issues, and higher profitability are likely to support the company's financial profile. Further, access to need-based funding support from JBG provides comfort.

[1] *External debt = Total debt less promoter (JBG) debt and operating lease liabilities*

Intense competition and regional concentration of sales – JMPL is exposed to intense competition from dealerships of other luxury car brands, especially from Mercedes and BMW, which may continue to impact its revenue and profitability. Its used-car business is yet to attain operational break-even, which would also constrain profits in the near-term. Moreover, JMPL's sales are regionally concentrated with the major portion of its revenue coming from Karnataka. However, the company has acquired distressed Audi dealerships in Mumbai, Goa and Nashik over the past two years, the ramp up of which is expected to reduce the geographical concentration risk to the revenues to an extent.

Liquidity position: Adequate

JMPL's liquidity position is expected to remain adequate, aided by steady cash flow generation from operations. These would be supported by the healthy cushion of around ~Rs. 190 crore in fund-based working capital facilities (as on July 31, 2022). The company has sanctioned fund-based working capital lines of Rs. 360 crore and month-end utilisation of the same was moderate at 46% for the 12 months ended June 2022. The company has no term loans on its books, though it has planned capex of Rs. 10.0–15.0 crore in FY2023. The projected cash flow operations and available working capital lines are expected to be adequate to meet the business requirements over the next 12-months. Financial flexibility, emanating from backing of JBG, provides cushion in case of any adverse conditions or downturn in the business.

Rating sensitivities

Positive factors – ICRA could upgrade JMPL's rating if, inter alia, there is a healthy improvement in scale and profitability of its operations or reduction in debt levels, supporting improvement in its credit metrics. Furthermore, improvement in credit profile of JCPL (support provider) would also support a positive rating action.

Negative factors – Negative pressure on the ratings would arise in case of—(a.) significant decline in scale of operations and profitability and/or deterioration in working capital cycle, which adversely impacts the company's financial metrices and liquidity profile and/or (b.) sustained deterioration in credit profile of support provider, JCPL, or weakening of linkages with JCPL. Specific credit metric that could lead to a downward revision in ratings would be adjusted interest cover (i.e., ICR excluding promoter debt) lower than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Dealership Rating approach – Consolidation Rating approach – Implicit Support from parent or Group
Parent/Group Support	JMPL is a Jubilant Bhartiya Group company. The rating assigned to JMPL factors in the high likelihood of its group company, JCPL, extending financial support because of its strategic importance and close business linkages (corporate guarantee extended by JCPL for entire debt of JMPL). We also expect JCPL/JBG to be willing to extend financial support to JMPL out of their need to protect their reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the promoters extending timely financial support to the company, whenever a need has arisen.
Consolidation/Standalone	ICRA has taken a consolidated view of JMPL and its two subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities. For arriving at the ratings, ICRA has considered the consolidated financials of JMPL. As on July 31, 2022, the company had two subsidiaries, which are all enlisted in Annexure 2.

About the company

Jubilant Motorworks Private Limited, incorporated in 2009, is the automobile vertical of the Jubilant Bhartia Group. It took over the operations of Jubilant Enpro, which was till then, an importer of Audi cars into India. The company, together with its two wholly owned subsidiaries, JPCPL and Jubilant Auto Technologies Private Limited (JATPL), is referred to as Jubilant Motorworks Group. The Group has sizable presence in South and West India. It entered the Audi dealership business in 2009 from Bangalore. Thereafter, it opened/acquired Audi showrooms in Chennai, Mangalore, Pune, Mumbai, Nashik, and Goa during 2009-2021. The Group also opened MG dealerships in Bangalore and Mangalore in 2019 and 2020, respectively. JMPL also started its own multi-brand used cars business in the name of "The Cars Collective" (under JPCPL) with showrooms across Bangalore, Mangalore, Mysore, Udupi and Hubli (in Karnataka) as well as Mumbai. The Group started its software development vertical under JATPL in 2021. Montyr, a technology enabled automobile doorstep service provider, was started in 2022.

As on date, the company has 14 showrooms/ experience centres for its two principals and 10 showrooms for its used car business.

Key financial indicators

JMPL (Consolidated)	FY2021	FY2022*
Operating Income (Rs. crore)	731.4	1,074.1
PAT (Rs. crore)	13.0	3.9
OPBDIT/OI (%)	5.6%	4.2%
PAT/OI (%)	1.8%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	18.2	17.2
Total Debt/OPBDIT (times)	6.7	6.8
Interest Coverage (times)	1.7	1.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional results*

Note: Amount in Rs. crore; All calculations are as per ICRA research; Source: Company, ICRA Research

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 July 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 26, 2022	Sep 8, 2022	--	--	--
1	**Cash credit/ Overdraft Limits**	Long-term	61.20	22.6	[ICRA]A- (Stable)	[ICRA]A- (Stable)	--	--	--
2	**Overdraft Limits**	Short-term	-	-	-	[ICRA]A2+	--	--	--
3	**Inventory funding lines**	Short-term	277.50	132.9	[ICRA]A2+	[ICRA]A2+	--	--	--
4	**Bank Guarantee**	Short-term	19.50	15.0	[ICRA]A2+	[ICRA]A2+	--	--	--
5	**Unallocated limits**	Short-term	6.00	-	[ICRA]A2+	[ICRA]A2+	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based Limits (Cash Credit/ Overdraft Facility)	Simple
Short-term fund-based limits (Inventory funding)	Very Simple
Short-term Non-fund based limited (BG)	Very Simple
Short-term unallocated limits	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund Based Limits (Cash Credit/ Overdraft Limits)**	May 11, 2022/ May 6, 2022	-	NA	61.20	[ICRA]A-(Stable)
NA	**Short-term fund-based limits (Inventory funding)**	May 11, 2022	-	NA	277.50	[ICRA]A2+
NA	**Short-term Non-fund based limits (BG)**	May 11, 2022	-	NA	19.50	[ICRA]A2+
NA	**Short-term unallocated limits**	NA	-	NA	6.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	JMPL Ownership	Consolidation Approach
Jubilant MotorWorks Private Limited	100.00% (rated entity)	Full Consolidation
Jubilant Performance Cars Private Limited	100.00%	Full Consolidation
Jubilant Auto Technologies Private Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K. Srikumar
+91 44-4596 4318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

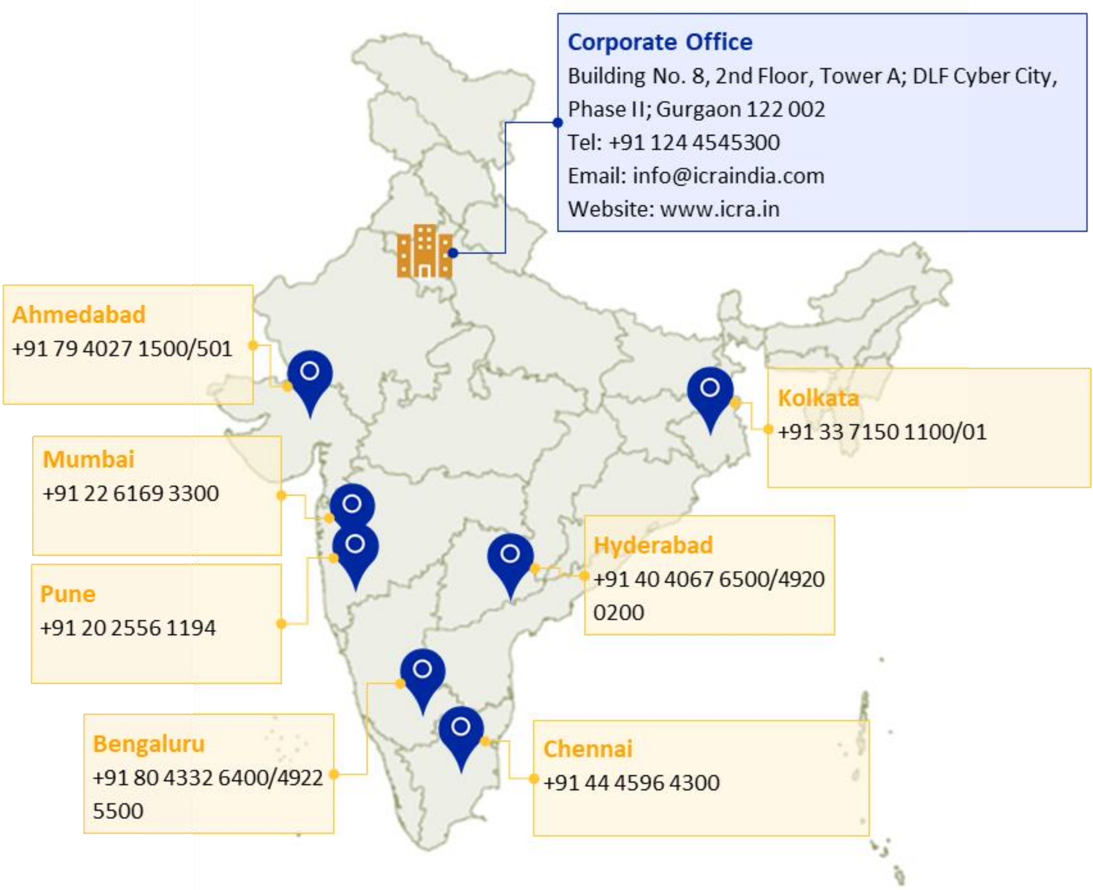
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.