November 1, 2022(Revised)

Globe Automobiles Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	12.50	117.50	[ICRA]BBB (Stable); reaffirmed/assigned
Fund-based – Term Loan	-	44.83	[ICRA]BBB (Stable); assigned
Unallocated	12.50	37.67	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed/assigned
Total	**25.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action favourably factors in Globe Automobiles Private Limited's (Globe Auto/the company) long track record and its established position as one of the largest authorised dealers of Toyota Kirloskar Motor Private Limited (Toyota) in the Haryana, Punjab and Mohali regions with eight showrooms and eleven workshops. The company has a healthy market share in the utility vehicle segment in the market in which it operates and its healthy volume growth of ~29% year-on-year (YoY) in H1 FY2023. ICRA expects the company's financial profile to be comfortable supported by moderate revenue growth and profitability. The company also does not have any debt-raising plans thus its coverage metrics are expected to be healthy over the medium term. The company has a short working capital cycle due to low inventory holding and adequate liquidity profile, supported by free cash balances and adequate inventory-funding facility.

The ratings are, however, constrained by the increased dependence on the demand trend of Toyota's two models, *Innova* and *Fortuner*. However, Toyota has also launched *Urban Hyryder*, a mid-size UV, in September 2022, which is likely to ease model concentration to some extent. Besides this, the competition faced by the company from other Toyota dealers as well as dealers of other original equipment manufacturers (OEMs) are likely to keep the margins under check. This apart, the company has extended corporate guarantees to its group companies. Any additional funding support to group companies can lead to a pressure on its financial profile.

The Stable outlook on the ICRA BBB rating reflects ICRA's opinion that the company's scale would remain healthy due to its strong addressable market and new model launches by Toyota; further supported by healthy continuing demand of key models.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in auto-dealership business, part of Chandigarh based JCBL Group – Globe Auto has been the authorised dealer of Toyota's vehicles for Haryana, Punjab and Mohali since 2001. The proven track record in the dealership business, coupled with its presence across 11 locations, supports the company's growth prospects to an extent. Globe Auto is one of the largest dealers of Toyota in North India, contributing a healthy share in Toyota's domestic sales. Globe Auto is a part of the JCBL Group, based out of Chandigarh. The promoter has a rich experience in automobile sector, having presence through various entities, since 1989.

Healthy profitability and return indicators supported by high contribution from spares and service income – Globe Auto has been reporting healthy profitability and RoCE on account of the healthy revenue contribution from the spares and service income and revival in the demand of PV in the domestic market. The operating profit margin (OPM) improved significantly in FY2021 and FY2022 to 6.3% and 6.4% (3.8% in FY2020), respectively. The high revenue contribution of ~20-25% from spares and services, which yields higher margin compared to the sales of vehicles contributes to the relatively better margins of the company as compared to peers.

Comfortable financial profile – Globe Auto's debt has declined to Rs. 80.91 crore as on Mar 31, 2022, from Rs. 96.50 crore as on Mar 31, 2021, led by the lower working capital debt and repayment of scheduled term debt. The working capital debt requirement is low due short working capital cycle-led by limited debtors, modest inventory and credit period availed. Reduction in finance cost, coupled with improved operating profit has led to healthy improvement in interest coverage and DSCR to 4.3 times in FY2022 (2.1 times in FY2021) and 1.4 times (1.3 times in FY2021), respectively. The total debt/OPBDITA has also improved to 1.9 times in FY2022 from 3.5 times in FY2021 due to the decline in total debt and an increase in operation profit. Including debt guaranteed for group entities, the company's net debt/OPBDIT stood at 2.1 times in FY2022.

Credit challenges

High dependence of few models – Globe Auto has a high dependence on the performance of *Innova* and *Fortuner*, which comprises ~65-70% of the total vehicles sold. However, there has been an increase in sales volume of *Urban Cruiser* and *Glanza* in the last two-three years. This apart, Toyota has also launched *Urban Hyryder* in September 2022, a mid-size UV. *Urban Cruiser, Glanza* along with the newly launched *Urban Hyryder* are likely to ease some of the model concentration to an extent in the medium term.

Highly competitive auto dealership business – The automotive dealership industry is highly competitive with stiff competition from other Toyota dealerships. The competitive intensity from dealers of other original equipment manufacturers (OEMs) also exerts pressure on sales volumes and margins.

Support to group entities in the form of corporate guarantee – Globe Auto has extended the corporate guarantees of ~Rs. 37 crore towards its group companies. Any further support to group companies in the form of corporate guarantee or otherwise can lead to a pressure of its financial profile. ICRA notes that apart from the said guarantees, there are no other operational and financial linkages with group entities.

Liquidity position: Adequate

Globe Auto's liquidity position is **adequate** on account of its low reliance on working capital funding (inventory funding) and sufficient cash and liquid investment. The company had ~Rs. 38.3 crore of free cash and liquid equivalent as on September 30, 2022, which lends comfort for the repayment liability and day-to-day operational expenses. The company has ~Rs. 16.02 crore repayment for FY2023, which has already been prepaid. Moreover, the company is generating comfortable net cash accruals from the business.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings if the company demonstrates an improvement in the scale while maintaining the healthy profit margins and credit profile along with a comfortable liquidity position on a sustained basis.

Negative factors - ICRA could downgrade the ratings if there is a sharp decline in revenue and profitability, or if the company undertakes any major debt-funded capex or extends sizeable support to group entities, which results in weakening of the credit profile on a sustained basis. Additionally, net debt (including corporate guarantee extended by Globe Auto)/OPBIDTA higher than 3 times, on a sustained basis, would be a negative factor for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology of Automobile Dealerships
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of Globe Auto

About the company

Globe Auto is an authorised dealer of Toyota's vehicle since 2001. Initially, the company started its operations in Karnal and Ambala (Haryana) in 2001, subsequently entered Mohali in 2005 and finally entered Punjab in 2015. The company has sales, spares and service (3S) outlets in Karnal, Ambala, Panipat, Yamunanagar and Kaithal in Haryana, Ludhiana and Sangrur in Punjab and Mahali in Chandigarh. This apart, the company also has spare and service (2S) outlets in Kurukshetra, Jind and Mohali.

Key financial indicators (audited)

Globe Auto standalone	FY2021	FY2022
Operating income	434.8	656.9
PAT	9.0	8.2
OPBDIT/OI	6.3%	6.4%
PAT/OI	2.1%	1.2%
Total outside liabilities/Tangible net worth (times)	2.7x	2.4x
Total debt/OPBDIT (times)	3.5x	1.9x
Net debt* (including corporate guarantees)/OPBDIT (times)	3.9x	2.1x
Interest coverage (times)	2.1x	4.3x

*Source: Company, *net debt= total debt less free cash*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 (Rs. crore) *	Date & rating in FY2023		-	-	-
					Nov 1, 2022	Oct 28, 2022	-	-	-
1	**Cash Credit**	Long Term	117.50	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
2	**Term Loans**	Long Term	44.83	44.83	[ICRA]BBB (Stable)				
2	**Unallocated**	Long/Short Term	37.67	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

*Source: Company, *as on Oct 28, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loans	Simple
Long and Short Term – Unallocated	Not applicable

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	Cash Credit	NA	NA	NA	117.50	[ICRA]BBB (Stable)
NA	Term Loans	April 2017	NA	March 2027	44.83	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	37.67	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Rationale dated November 1, 2022, has been corrected with revision as detailed below:

There is a correction in the summary of rating action table. The 2nd column in the summary of rating action table corrected as previous from current.

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