

November 03, 2023

## Jaika Automobiles Private Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                          | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                 |
|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long-term – Fund-based – Cash Credit | 24.00                                | 24.00                               | [ICRA]BB (Stable); reaffirmed |
| <b>Total</b>                         | <b>24.00</b>                         | <b>24.00</b>                        |                               |

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation reflects ICRA's opinion that Jaika Automobiles Private Limited's (JAPL) long track record as an authorised dealer of Hyundai Motor India Ltd. (HMIL) and the strong position of its principal, HMIL, in the domestic passenger vehicles (PVs) segment with well-performing recent launches, will continue to benefit JAPL's performance in the medium term. The rating also derives comfort from the extensive experience of the promoter family in the auto dealership business and the reputed brand presence of the Jaika Group as an automotive dealer in Chhattisgarh and Maharashtra.

The ratings are, however, constrained by the company's thin profit margins and competitive intensity inherent in the automobile dealership business as well as the demand cyclicity of the automobile sector. Moreover, the ratings factor in the company's high leverage as well as its exposure to other Group firms in the form of investments and guarantees provided.

The Stable outlook indicates that JAPL is expected to benefit from the established position of its dealership and of its principal, HMIL, coupled with a stable demand outlook in the PV segment.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in the auto dealership business** – JAPL is a part of the Jaika Group, which is promoted by the Kale family. The Group operates multiple dealerships for manufacturers such as Kia, Fiat and Hyundai across Maharashtra and Chhattisgarh. The promoters have experience of over three decades in the automobile dealership business in Madhya Pradesh, Chhattisgarh and Maharashtra.

**Established market position as a leading dealer of HMIL in Chhattisgarh** – JAPL is among the leading dealers of HMIL in Chhattisgarh and has a diversified presence with 10 sales-service-spares (3S) outlets, one service-spares (2S) and one sales (used cars) outlet across various districts. Further, it leverages HMIL's established presence and brand recall in the domestic auto market for pushing its sales. HMIL is the second largest player with ~15% market share in the domestic PV market.

#### Credit challenges

**Weak profit margins as prevalent in automobile dealership industry** – The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. The inherently low value addition and intense competition in the auto dealership business resulted in low operating margins for the company. JAPL's operating margins remained in the range of 2.0–2.5% over the past five fiscals till FY2020. However, since FY2021, the operating margins have improved on account of sales of higher value and margin models as well as reduction in the marketing expenses/discounts offered.

**High leverage and moderate coverage metrics** – JAPL’s financial risk profile remains moderate with elevated levels of debt owing to multiple emergency credit line guarantee scheme (ECLGS) facilities availed from lenders as well as higher working capital limit utilisation. In FY2023, JAPL’s leverage remained high with Total Debt/OPBDITA of 6.13 times. This was owing to its earnings coming under pressure from moderate revenue growth amid slow supply from HMIL, competition from other dealerships and high year-end stock to avail transport tax exemption benefits in the state. However, the Net Adjusted External Debt/OPBITDA level stood moderately better at 3.98 times in FY2023 vis-à-vis Total Debt/OPBITDA. The coverage metrics like interest coverage and DSCR are expected to remain moderate, with recent increase in rate of interest on loans.

**Support to Group entities in the form of investments and guarantees** – There is a track record of intragroup investments and substantial guarantees. JAPL is the oldest entity of the Group and owns various properties and land parcels, which it has offered as collateral for other Group entities. This figure has risen in FY2023 by way of additional collaterals offered. While there has not been any fund outflow over the last few years, any fund-based support can constrain JAPL’s credit metrics and liquidity.

## Liquidity position: Stretched

JAPL’s liquidity is stretched led by working capital requirements and modest cash accruals. While the company’s utilisation of working capital limits has been at an average of 62% over the 12-month period ended in September 2023, its debt repayment obligations are ~Rs. 3.0 crore in FY2024 and Rs. 2.8 crore in FY2025. The company had free cash balance of ~Rs. 8.0 crore as on September 30, 2023, and annual maintenance capex of Rs. 1.0 crore to be funded through cash accruals.

## Rating sensitivities

**Positive factors** – ICRA could upgrade JAPL’s rating if it demonstrates a healthy and sustained growth in its overall scale of operations and profitability, leading to a strengthened net worth and liquidity position. Concurrently, the company’s ability to lower its reliance on external borrowings and maintain interest coverage above 2.4 times, on a sustained basis, shall trigger an upward rating revision.

**Negative factors** – Negative pressure on JAPL’s rating could arise due to notable decline in revenues and/or profitability, or deterioration in working capital cycle impacting its liquidity and overall financial profile. Any significant investment in any of its Group entities that impacts its liquidity could also exert negative pressure on the rating. The company’s inability to maintain Net External Debt/OPBDITA above 4.0 times, on a sustained basis, shall trigger a downward rating revision.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Automobile Dealerships</a> |
| Parent/Group support            | Not applicable   |
| Consolidation/Standalone        | Standalone   |

## About the company

Incorporated in 1960, JAPL is an authorised dealer for HMIL’s entire range of passenger vehicles. Based in Raipur (Chhattisgarh), JAFPL has 10 3S outlets, one 2S and one sales (used cars) outlet across the state. Four of the 3S outlets also sell used cars. JAPL is headquartered at Nagpur (Maharashtra).

### Key financial indicators (audited)

| JAPL Standalone                                      | FY2022 | FY2023 |
|--|--------|--------|
| Operating income                                     | 287.7  | 289.8  |
| PAT  | 2.9    | 2.6    |
| OPBDITA/OI   | 3.3%   | 3.3%   |
| PAT/OI   | 1.0%   | 0.9%   |
| Total outside liabilities/Tangible net worth (times) | 5.2    | 1.9    |
| Total debt/OPBDITA (times)                           | 5.1    | 6.1    |
| Interest coverage (times)                            | 2.4    | 2.4    |

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

### Status of non-cooperation with previous CRA:

| Rating Agency | Ratings   | Date         |
|---------------|---|--------------|
| CRISIL        | CRISIL B (Stable); ISSUER NOT COOPERATING; Downgraded from CRISIL BB (Stable); ISSUER NOT COOPERATING | May 12, 2023 |

Any other information: None

### Rating history for past three years

| Instrument                              | Type      | Current rating (FY2024)  |   | Chronology of rating history for the past 3 years |                         |                         |                         |
|---|-----------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|   |           | Amount rated (Rs. crore) | Amount outstanding as on Oct 31, 2023 (Rs. crore) | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|   |           |                          |   | Nov 03, 2023                                      | Nov 11, 2022            | Aug 18, 2021            | -                       |
| 1 Fund-based working capital facilities | Long term | 24.0                     | --  | [ICRA]BB (Stable)                                 | [ICRA]BB (Stable)       | [ICRA]BB (Stable)       | -                       |

### Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|---|----------------------|
| Long-term – Fund-based working capital facilities | Simple               |

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   | Fund-based working capital facilities | NA               | NA          | NA       | 24.00                    | [ICRA]BB (Stable)          |

Source: Company

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

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