

June 28, 2024^(Revised)

Star Automobiles (MP) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	10.00	4.75	[ICRA]BBB- (Stable); reaffirmed
Long-term – Unallocated Limits	-	5.25	[ICRA]BBB- (Stable); reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating of Star Automobile (MP) Limited's (SAML) considers the company's established position as a leading automobile dealer of Mahindra & Mahindra Limited (M&M or the Original Equipment manufacturer, OEM) across 7 districts in Madhya Pradesh and the healthy revenue growth of ~45% registered in FY2024 (provisional) on a YoY basis. ICRA expects the growth momentum to continue in the current fiscal as well, though may moderate to some extent. The rating also favourably factors in the extensive experience of its promoters in the automobile dealership business. The rating continues to derive comfort from SAML's comfortable coverage indicators and adequate liquidity, supported by access to low-cost trade finance facilities.

The rating is, however, constrained by the inherently thin margins in the auto dealership business due to limited bargaining power. While assigning the rating ICRA has also considered the company's exposure to the cyclical nature of the Indian CV industry and the intense competition among the dealers of various original equipment manufacturers (OEMs) within the catchment area of operations.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SAML will continue to benefit from its established presence in eastern Madhya Pradesh while sustaining the profitability levels.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in dealership business – SAML is a part of the Star Group and its promoters have extensive experience in the automotive dealership space, operating multiple dealerships of different OEMs for PVs, CVs and 2Ws.

Strong market position as one of the leading authorised dealers of M&M in eastern Madhya Pradesh – SAML enjoys an established market position as one of the largest authorised dealers of M&M in eastern Madhya Pradesh. Given its presence as a leading dealer of M&M across 7 districts in the state, SAML enjoys a healthy market share in its area of operations. The company's revenue has grown significantly by around 45% in FY2024 to ~Rs. 345 crore YoY, after a ~72% growth registered in FY2023. The company's growth momentum is likely to continue in the current fiscal as well but would moderate to some extent. Addition of 6 new showrooms in FY2024 helped the company in acquiring new geographies/ customers mainly contributed to the sales growth of the company in FY2024.

Comfortable coverage indicators –SAML does not have any long-term debt and avails working capital funding mainly in the form of overdraft against fixed deposits and low-cost trade advance facilities. Consequently, its debt metrics remain

comfortable as reflected by healthy interest cover of 5.8 times and 6.6 times respectively for FY2023 and FY2024 (provisional). The company's financial risk profile is likely to remain similar in the near-to-medium-term with moderation in revenue growth.

Credit challenges

Thin margins inherent in auto dealership business – Typically, in a dealership business, the profit margins are thin as trading of vehicles dominate the revenue mix. Also, the low bargaining power of the dealer is reflected in the operating profit margin of 2.2% in FY2024 (provisional).

Vulnerable to inherent cyclicity in automobile industry and competition from dealers of other OEMs – The firm remains exposed to cyclical downturns in the automobile industry. Further, the automotive dealership industry is highly fragmented with intense competition from dealerships of competing OEMs. Additionally, increasing dealer outlets of other OEMs can impact growth.

Liquidity position: Adequate

SAML's liquidity remains adequate, supported by available undrawn lines of credit in the form of working capital limits which includes trade advance facilities from NBFCs including Mahindra and Mahindra Financial Services. The cash credit utilisation of the firm as a proportion of sanctioned limits remained low at 33% over a period of 12 months ending April 2024. There are no long-term debt repayments or any major debt funded capex plans. However, the company has budgeted around Rs. 3 crore for upgradation of service workshop and addition of a new showroom in FY2025, which would be funded either entirely through internal accrual or part funded through debt.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a healthy growth in revenue and earnings, resulting in an improvement in its profitability indicators and debt coverage metrics on a sustained basis.

Negative factors – The rating may be downgraded if there is a significant decline in the company's revenue and profitability leading to deterioration of its overall financial profile and liquidity position. Interest coverage below 3.0 times, on a sustained basis, could also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Automobile Dealerships
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SAML.

About the company

Incorporated in 2007 as a public limited company, SAML is an authorised dealer for the CVs and PVs of M&M in 7 districts of Madhya Pradesh, with the main outlets in Jabalpur. The company is promoted by Mr. Ramesh Singh and he handles the day-to-day operations. It operates 15 showrooms of M&M in Madhya Pradesh.

SAML is a part of the Star Group, which operates automobile dealerships for multiple OEMs such as M&M, Honda Cars India Limited (Honda), Tata Motors Limited (TML), and Hero MotoCorp Limited (Hero) in Madhya Pradesh. Additionally, Star Group has a presence in other sectors such as automobile financing, newspaper printing and insurance broking.

Key financial indicators (audited)

SAML Standalone	FY2022	FY2023	FY2024 [^]
Operating income	138.4	238.8	345.4
PAT	2.2	3.5	5.4
OPBDITA/OI	2.2%	2.2%	2.2%
PAT/OI	1.6%	1.5%	1.6%
Total outside liabilities/Tangible net worth (times)	0.7	1.0	0.9
Total debt/OPBDITA (times)	4.8	3.7	3.2
Interest coverage (times)	4.4	5.8	6.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 28, 2024	Mar 29, 2023	Dec 31, 2021	Oct 30, 2020
1 Fund-based – Cash Credit	Long term	4.75	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Unallocated Limits	Long term	5.25	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Unallocated Limits	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	4.75	[ICRA]BBB- (Stable)
NA	Unallocated Limits	NA	NA	NA	5.25	[ICRA]BBB- (Stable)

Source: Company

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

Rationale dated June 28, 2024, has been corrected with revision as detailed below:

In the Key financial indicator table of the rationale on Page No. 3, the FY2024 OPBDITA/OI has been inadvertently mentioned as 2.6% instead of 2.2% which has been corrected.

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