

July 23, 2024

Star Automobiles: Rating upgraded to [ICRA]BBB- (Stable) and ratings removed from Issuer Non-Cooperating Category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	25.00	10.00	[ICRA]BBB- (Stable); Rating upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Long-term – Unallocated Limits	-	15.00	[ICRA]BBB- (Stable); Rating upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Total	25.00	25.00	

*Instrument details are provided in Annexure-I

Rationale

Star Automobile's (SA) rating has been removed from the Issuer Not Cooperating category and its long-term rating has been upgraded. The rating action follows cooperation from the entity in providing required information for undertaking the rating exercise. The assigned rating derives comfort from SA's established position as a leading dealer of Mahindra & Mahindra Limited (M&M, or the original equipment manufacturer [OEM]) across 14 districts in Madhya Pradesh and the healthy revenue growth of ~34% registered in FY2024 (provisional) on a YoY basis. ICRA expects the growth momentum to moderate in the current fiscal, given the tepid consumer demand, which may result in inventory piling and in turn putting pressure on the liquidity. Nevertheless, the rating favourably factors in the extensive experience of its promoters in the automobile dealership business and its healthy financial profile, as reflected by its comfortable coverage indicators and adequate liquidity, supported by access to low-cost trade finance facilities.

The rating is, however, constrained by the inherently thin margin 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 commercial vehicle (CV) industry and intense competition among the dealers of various OEMs within the catchment area of operations. Additionally, given its constitution as a partnership firm, ICRA notes the regular withdrawal of funds by the promoters, which increased substantially in FY2023. However, the same has moderated in FY2024 (provisional).

The Stable outlook on SA's long-term rating reflects ICRA's opinion that the company will continue to benefit from its established presence in eastern Madhya Pradesh while sustaining the current profitability levels.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in dealership business – SA 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 passenger vehicles (PVs), CVs and two wheelers (2Ws).

Strong market position as one of the leading authorised dealers of M&M in eastern Madhya Pradesh – The company 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 14 districts in the state, SA enjoys a healthy market share in its area of operations. It also

operates 17 showrooms (including 16 through sub-dealership) of Hero MotoCorp Ltd.'s (HMCL) 2-wheelers in Madhya Pradesh. M&M has witnessed a healthy revenue growth of around 34% in FY2024 (49% in FY2023) on a YoY basis, led by a robust growth in sales of its key models like Bolero and Scorpio. ICRA expects the growth momentum to moderate in the current fiscal, given the tepid consumer demand, which may lead to inventory piling and putting pressure on the liquidity. Addition of five new showrooms and one stockyard in FY2024 helped the company in acquiring new geographies/ customers, which mainly contributed to the sales growth in FY2024.

Comfortable coverage indicators – SA does not have any long-term debt and avails working capital facilities mainly in the form of overdraft against fixed deposits and low-cost trade advance facilities. Consequently, its debt metrics remain comfortable, as reflected by a healthy interest cover of 5.2 times and 6.6 times, respectively in FY2023 and FY2024 (provisional). The company's financial risk profile is likely to remain comfortable in the near-to-medium-term with moderation in revenue growth.

Credit challenges

Thin margins inherent in auto dealership business – In a dealership business, the profit margins are thin as trading of vehicles dominates the revenue mix. Also, the low bargaining power of the dealer is reflected in the thin operating profit margin of 2.7% in FY2024 (provisional) and ICRA does not expect any material moderation in the same, going forward.

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 dealers of competing OEMs. Additionally, increasing dealer outlets of other OEMs and competition from electric vehicles (from other OEMs) can impact growth.

Partnership nature of business limits financial flexibility and leads to risks of capital withdrawal – Historically, significant capital withdrawal by the partners, annually, has been resulting in thin accruals, despite adequate profits. This has led to a limited increase in its net worth position, thus restricting financial flexibility. In FY2023, partners withdrew more than the year's profits, resulting in negative cash accruals owing to funding requirement in certain other businesses. The withdrawals moderated substantially to around Rs. 4.46 crore in FY2024 (provisional) and ICRA understands the withdrawals to remain within the reasonable limit, going forward.

Liquidity position: Adequate

SA's liquidity remains adequate, supported by available undrawn lines of credit in the form of working capital limits, which include trade advance facilities from non-banking financial companies (NBFCs) including Mahindra and Mahindra Financial Services. The cash credit utilisation of the firm, as a proportion of the sanctioned limits, remained low at 33% over a period of 12 months ending in March 2024. There are no long-term debt repayment obligations, or any debt funded capex plan. However, the company has budgeted around Rs. 0.50 crore for addition of a new showroom in FY2025, which would be funded entirely from internal accruals. ICRA expects the cash flow from operations to turn positive in FY2025, as the additional working capital requirement will be on the lower side.

Rating sensitivities

Positive factors – The rating could be upgraded if the firm is able to maintain its growth in revenues and earnings, while sustaining the comfortable debt coverage metrics and liquidity.

Negative factors – The rating may be downgraded if there is a significant decline in the firm's revenue and profitability, resulting in a deterioration of its overall financial profile and liquidity position. Further, higher-than-expected withdrawal, on a sustained basis, resulting in a decline in net worth, may negatively impact the rating. Interest coverage below 3.0 times, on a consistent basis, could also lead to a negative rating action.

Analytical approach

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

About the company

Founded in 1978 as a partnership firm, SA is an authorised dealer of M&M and HMCL. The firm operates 17 sales, service and spares (3S) showrooms and 6 sales (1S) showrooms of M&M's passenger and light commercial vehicles and two sales and spares (2S) showrooms in 14 districts of Madhya Pradesh. It also operates 17 showrooms, including 16 sub-dealership showrooms of HMCL in Madhya Pradesh.

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

Key financial indicators (audited)

SA Standalone	FY2022	FY2023	FY2024 [^]
Operating income	428.9	638.7	854.0
PAT	12.7	15.4	20.6
OPBDITA/OI	3.3%	2.8%	2.7%
PAT/OI	3.0%	2.4%	2.4%
Total outside liabilities/Tangible net worth (times)	1.3	2.3	1.5
Total debt/OPBDITA (times)	1.4	2.1	2.2
Interest coverage (times)	5.1	5.2	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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 23, 2024	Apr 03, 2024			
1 Fund-based – Cash Credit	Long term	10.00	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Unallocated Limits	Long term	15.00	[ICRA]BBB- (Stable)	-	-	-	-

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	10.00	[ICRA]BBB- (Stable)
NA	Unallocated Limits	NA	NA	NA	15.00	[ICRA]BBB- (Stable)

Source: Company

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

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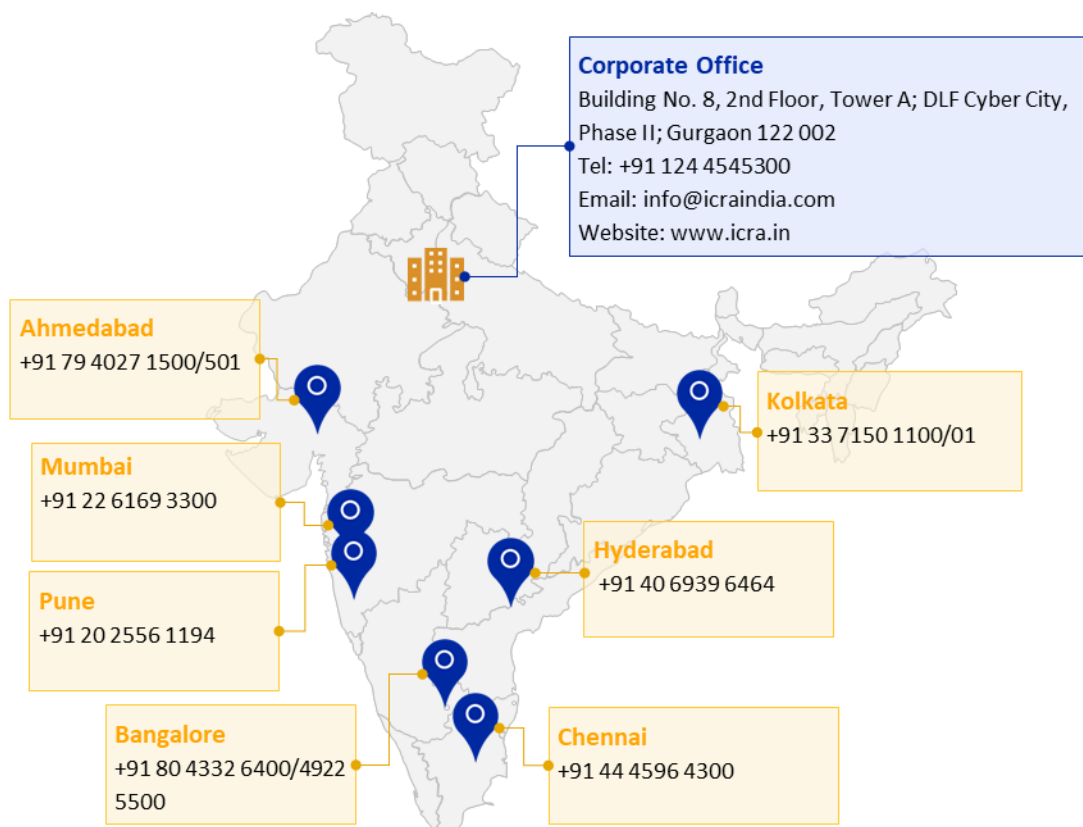


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