

November 12, 2024

## Sharma Cars 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 dropline overdraft	19.20	19.20	[ICRA]B+(Stable); reaffirmed
Long term / short term Unallocated limits	16.49	16.49	[ICRA]B+(Stable)/ [ICRA]A4; reaffirmed
<b>Total</b>	<b>35.69</b>	<b>35.69</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the bank line ratings of Sharma Cars Private Limited (SCPL) considers a likely improvement in the company's operating and financial performances, supported by its long relationship with its principal, Hyundai Motors India Limited (HMIL), as a signature dealer in Gujarat. The ratings also factor in the extensive experience of its promoters in the auto dealership business, its presence through multiple showrooms and aligned servicing facilities in Ahmedabad.

The ratings, however, remain constrained by the company's subdued financial risk profile, evident from its leveraged capital structure and stressed debt coverage indicators because of low profitability and high level of borrowings. The ratings also continue to consider the intense competition faced by SCPL from other dealerships in its operating region and the susceptibility of the company's operations to any slowdown in the automobile industry. SCPL's liquidity remains stretched due to thin cash generated, higher interest payouts due to working capital intensive nature of operations, and higher term debt repayment obligations.

The Stable outlook on the long-term rating factors in ICRA's expectation that the revenues and the earnings of the company are likely to improve in the near term with recovery in demand conditions.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in auto dealership business** – SCPL's promoters have more than two decades of experience in the automobile dealership business. SCPL is one of the leading and oldest dealers of HMIL in Ahmedabad, dealing in the entire range of passenger vehicles. It operates three sales showrooms, including one where service and spares facilities are given, one full-fledged workshop and one stockyard.

**Established market position of principal HMIL in domestic PV segment** – HMIL is the second-largest player in the domestic market and had around 15% share in the PV segment in FY2024. Hence, HMIL's long presence and its brand recall in the domestic auto market benefit SCPL for pushing its sales.

#### Credit challenges

**Modest financial risk profile with leveraged capital structure and weak coverage indicators** – The company's capital structure continues to be leveraged, reflected in its gearing of 6.8 times as on March 31, 2024. Further, the debt coverage indicators remained weak due to high finance costs and thin margins, marked by an interest coverage of 1.0 times, TD/OPBDITA of 10.1

times and NCA/TD of 2% as on March 31, 2024. Additionally, on account of high term debt repayment obligations in the near-to-medium term, DSCR remained below 1 times, with repayments supported by its free cash balances and working capital limits other than the receivables from the commission income.

**Inherently thin margins to auto dealership business** – SCPL’s revenues grew by 7% on a YoY basis to Rs. 232.2 crore in FY2024, supported by an increase in volumes and realisation. Despite a steady growth in revenues over the last three fiscals, its scale remained moderate. Further, its margins remained low, which is inherent in the auto dealership business. SCPL’s operating margin stood at 3.4% and the net margin was 0.3% in FY2024.

**Intense competition among dealers of HMIL and other OEMs** – SCPL is among six HMIL dealers in Ahmedabad. Besides, it faces stiff competition from dealers of other OEMs. The company’s operations are also susceptible to any prolonged slowdown in the automobile industry.

### Liquidity position: Stretched

SCPL’s liquidity position is expected to remain stretched, with high debt repayment obligations in the near-to-medium term against its yearly cash accrual and limited buffer in the working capital limits. The entity has a repayment obligation of Rs. 7.6 crore in FY2025 and Rs. 7.4 crore in FY2026, against an expected cash accrual of Rs. 2-4 crore. The liquidity is, however, supported by a buffer of ~19% in its working capital facility, which has an average utilisation of ~81% on the sanctioned lines of ~Rs.50 crore, during the 12-month period ending in September 2024. Further, the likely fund infusion of ~ Rs. 1.5 crore by its promoters as unsecured loans is expected to support its liquidity to some extent.

### Rating sensitivities

**Positive factors** – ICRA could upgrade SCPL’s ratings, if there is any substantial growth in its revenue and profitability, which leads to notable improvement in cash accruals and debt protection metrics. Additionally, an improvement in the working capital cycle that supports overall liquidity will be a positive trigger.

**Negative factors** – Pressure on the company’s ratings could arise, if revenue or profitability declines substantially, leading to material decline in cash accruals. Moreover, any higher-than-expected debt-funded capex or stretch in the working capital cycle that leads to deterioration in the capital structure and liquidity could trigger a downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Automobile Dealership</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

### About the company

SCPL, incorporated in 1998, is the automobile dealer of HMIL’s passenger vehicles. The company is promoted by Mr. Narendra Sharma, Mr. Surendra Sharma and Mr. Subashchandra Sharma, who have around two decades of experience in the automobile dealership business. SCPL is present in Ahmedabad (Gujarat) through its three sales showrooms, including one which provides services and spares facilities, one workshop and one stockyard.

### Key financial indicators (audited)

SCPL	FY2023	FY2024
Operating income	217.8	232.2
PAT	0.6	0.7
OPBDIT/OI	3.0%	3.4%
PAT/OI	0.3%	0.3%
Total outside liabilities/Tangible net worth (times)	7.2	7.6
Total debt/OPBDIT (times)	11.1	10.1
Interest coverage (times)	1.0	1.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Current year (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Nov 12, 2024	Date	Rating	Date	Rating	Date	Rating
Drop line overdraft	Long Term	19.20	[ICRA]B+ (Stable)	07-Sep-23	[ICRA]B+ (Stable)	11-Aug-22	[ICRA]B+ (Stable)	28-Jun-21	[ICRA]B+ (Stable)
Unallocated	Long Term/ Short Term	16.49	[ICRA]B+ (Stable)/ [ICRA]A4	07-Sep-23	[ICRA]B+ (Stable)/ [ICRA]A4	11-Aug-22	[ICRA]B+ (Stable)/ [ICRA]A4	28-Jun-21	[ICRA]B+ (Stable)/ [ICRA]A4

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Dropline overdraft	Simple
Long-term/ Short -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	<b>Dropline Overdraft</b>	NA	NA	NA	19.20	[ICRA]B+ (Stable)
NA	<b>Unallocated Limits</b>	NA	NA	NA	16.49	[ICRA]B+ (Stable)/[ICRA]A4

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**

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