January 04, 2021

Eram Motors Private Limited: [ICRA]B (Stable)/A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – CC	38.00	[ICRA]B (Stable); assigned
Long-term Fund-based – TL	12.00	[ICRA]B (Stable); assigned
Short-term Non-fund based - BG	9.00	[ICRA]A4; assigned
Total	**59.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in Eram Motors Private Limited's (EMPL) modest financial profile as reflected by weak return metrics over a declining scale in the backdrop of the ongoing demand slowdown in the automobile industry. Consequently, the company's high dependence on external borrowings has kept its capital structure and coverage indicators stretched. The ratings are also constrained by the inherently low margins in the dealership business and the intense competition from other Mahindra & Mahindra (M&M) dealers as well as dealers of other OEMs in Kerala, which exerts pressure on its sales and profit margins.

However, the ratings draw comfort from EMPL's established position in the North Kerala market as the leading dealer of M&M. It benefits from the strong market position of M&M in the utility vehicles (UV) and van segment in India. The ratings favourably note the strong promoter background and the financial support received by the company in the form of unsecured loans. The ratings consider EMPL's diversified revenue profile with income from sales of high-margin spares and service, pay-out from financiers and commission from insurance companies providing stability to its revenues to an extent.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that EMPL will continue to benefit from its established presence in North Kerala market and the financial flexibility as a part of a strong promoter group.

Key rating drivers and their description

Credit strengths

Strong promoter background – EMPL is a part of the Eram Group, which is based in Gulf Cooperation Council (GCC) region and is a diversified conglomerate mainly operating in oil and gas, power and utilities, travel, food, healthcare and automotive sectors. The Group is promoted by Dr. Sideek Ahmed, who has over 25 years of business experience in varied enterprises. The company has thus received regular support from the promoters in the past in the form of interest-free unsecured loans when required (Rs. 11.25 crore as on March 31, 2020), apart from Rs. 30.00 crore retained in the business for long term. However, these funds have been mainly utilised towards its capex requirements.

Proven track record as authorised dealer of M&M (third largest player in UV segment) – EMPL is the authorised dealer of passenger UV and light commercial vehicles for M&M in eight districts of Kerala since 2010. M&M is the third largest player in the Indian passenger UV market, after Maruti Suzuki India Limited and Hyundai Motor India Limited. The established presence of the principal augurs well for the company's prospects going forward.

Diversified revenue streams – The company's revenue stream comprises service income from workshop, sales of spares and accessories, payout from financiers and commission from insurance companies, which provide stability to its revenues to some extent. Sales of spares and service income contributed to 18.86% and 7.99%, respectively, of EMPL's revenues in FY2020 against 8.54% and 4.65%, respectively, in FY2019.

Credit challenges

Decline in revenues in FY2020 and H1 FY2021 owing to weak ongoing demand – The company's operating income (OI) witnessed a steep decline of 24.55% in FY2020. This was primarily owing to the overall slowdown in the automobile industry leading to lower sales volume in all the segments and more particularly in utility and van segments. Moreover, the lockdown in March 2020 end affected year-end and H1 FY2021 sales. EMPL's revenues in FY2021 are expected to be impacted by the slowdown in demand because of weak consumer sentiments amid the Covid-19 pandemic. Buying passenger vehicles is a discretionary purchase decision, so an improvement in consumer sentiments and an overall growth in the economy remain crucial.

Thin margins, leveraged capital structure and stretched coverage indicators – The auto dealership business is characterised by thin profit margins as the margins on vehicles are determined by the OEMs with the dealers having low bargaining power. EMPL's profitability has continued to be weak as reflected by operating margin of 1.88% and ROCE of 3.43% in FY2020. Owing to its thin operating margins, the company has been reporting losses over the last five years except FY2018 leading to erosion of net worth. Assuming part of the interest-free unsecured loans as capital, the company's adjusted gearing stood high at 2.05 times as on March 31, 2020. The other coverage indicators remained weak including Total debt/OPBITDA at 7.69 times, interest coverage at 1.55 times and DSCR at 0.80 times as on March 31, 2020. While it has implemented cost rationalisation measures in the current year, sustained improvement in the credit metrics remains to be seen.

Intense competition from other automobile dealers – The company's margins remain low due to the trading nature of operations and inherently low margins in the dealership business. Further, stiff competition in Kerala owing to the presence of various other automobile brand dealers exerts further pressure on its sales volume and margins.

Liquidity position: Stretched

The company has sizeable repayment obligation of Rs. 2.0 crore in FY2021 towards its term loans. While the average utilisation of the CC limits stood high at 87% during March 2020 to November 2020, there was high utilisation in its inventory funding facility, including that beyond the drawing power. However, the same remained within the sanctioned limits for a few months in H1 FY2021. The above factors, along with low free cash balances reflect EMPL's **stretched** liquidity position.

Rating sensitivities

Positive triggers – The ratings may be upgraded if there is a revival in demand for automobiles and higher profitability resulting in improved debt coverage metrics. Further, improvement in liquidity or interest coverage greater than 1.8 times, on a sustained basis, may trigger a rating upgrade.

Negative triggers – EMPL's ratings could be downgraded if there is any further weakening in its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealership
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on EMPL's standalone financial statements

About the company

Incorporated in 2010, EMPL operates as an authorised dealer of passenger UV and light commercial vehicles for M&M with 19 branches across eight districts of Kerala. Formerly incorporated as ITL Motors, the company was converted into EMPL in 2015, under the versatile Eram Group. Mr. Siddeek Ahmed, the Chairman and Managing Director of Eram Group, as well as EMPL, is based in Saudi Arabia. The company has showrooms in Calicut, Kannur, Kasaragod, Kottakkal, Malappuram, Palakkad, Thrissur and Wayanad in Kerala.

In FY2020, on provisional basis, the company reported a net loss of Rs. 1.60 crore on an OI of Rs. 380.35 crore compared to a net loss of Rs. 5.26 crore on an OI of Rs. 504.11 crore in FY2019. As per provisional figures, in H1 FY2021, it achieved sales of Rs. 42.17 crore.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	504.11	380.35
PAT (Rs. crore)	-5.26	-1.60
OPBDIT/OI (%)	1.05%	1.88%
PAT/OI (%)	-1.04%	-0.42%
Total Outside Liabilities/Tangible Net Worth (times)	4.85	2.68
Total Debt/OPBDIT (times)	16.84	7.69
Interest Coverage (times)	0.91	1.55

Source: EMPL

Status of non-cooperation with previous CRA:

CRISIL B (Stable)/A4; moved to Issuer non-cooperating on information as on December 21, 2020. *Refer link*

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					4-Jan-2021	-	-	-
1	Fund-based – CC	Long Term	38.00	-	[ICRA]B(Stable); assigned		-	
2	Fund-based – TL	Long Term	12.00	8.67	[ICRA]B(Stable); assigned			
4	Non-fund based – BG	Short term	9.00		[ICRA]A4; assigned			

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – CC	-	-	-	38.00	[ICRA]B (Stable)
NA	Fund based – TL	FY2019	-	FY2025	12.00	[ICRA]B (Stable)
NA	Non-fund based	-	-	-	9.00	[ICRA]A4

Source: EMPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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