

April 28, 2021

## Bimal Auto Agency India Pvt Ltd: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	24.00	24.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>24.00</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes note of the company's proven operational track record as an authorised dealer of Maruti Suzuki India Limited (MSIL) and its strong market position in Karnataka. ICRA takes note of the improvement in its margins in FY2021 supported by the entity's cost rationalisation efforts in the pandemic. The ratings positively factor in the leadership position of BAAIPL's principal, MSIL, in the domestic passenger vehicles segment. The ratings continue to derive comfort from BAAIPL's comfortable liquidity position and its efforts to restrict its reliance on working capital borrowings by efficiently managing its inventory levels.

The rating strengths are partially offset by the company's modest growth over FY2020 and degrowth during FY2021 led by lower sales volumes in the pandemic. Further, BAAIPL's margins from the sale of cars remain thin, inherent to the automobile dealership business. Besides, competition faced by the company from other MSIL dealers as well as dealers of other original equipment manufacturers (OEMs) exerts pressure on its sales and profit margin. Going forward, the company's ability to improve its revenues and expand its margins in the face of the second wave of Covid-19 impact, sluggish demand conditions and increasing competition would be a key rating sensitivity.

The Stable outlook reflects the company's established track record and good market position.

### Key rating drivers and their description

#### Credit strengths

**Long track record of BAAIPL in automobile dealership business** - BAAIPL has been the authorised dealer of MSIL's passenger vehicles (PVs) for the Karnataka region since 1970. The platinum dealer rating assigned by MSIL reflects BAAIPL's strong sales and service performance. It is among the largest authorised dealers for MSIL in the Karnataka region with a sales and service network spread across Bengaluru. Expansion of showrooms and workshops is likely to aid in sustaining its market share in Karnataka over the next few years.

**Experienced promoters and strong market position** – BAAIPL's promoters have extensive experience of over four decades in the business and the company has strong credential, being one of the large dealers of MSIL's passenger vehicles in Bangalore. The promoters are further supported by an experienced management team.

**Dominant market position of MSIL in domestic PV segment** – MSIL has sustained its leadership position in the Indian domestic PV segment with its market share improving over the years, driven by the success of its new models and the healthy performance of existing models. MSIL's market share stood at 51.0% in FY2020 and 49.1% in 11M FY2021 on the back of a positive response for its models like Baleno, Vitara Brezza, Wagon R, Swift and Swift Dzire.

## Credit challenges

**Impact of Covid-19 on volumes, second wave a concern-** The company reported a YoY growth of 3.0% and a degrowth of 13.7% in its revenues in FY2020 and FY2021, respectively, on account of the Covid-19 impact. Subdued consumer sentiment, high cost of ownership due to regulatory changes (safety, emission, insurance), high fuel prices, tightened financing environment, deferment in purchases by consumers in anticipation of steep discounting of BS-VI vehicles due to the pandemic have been key demand driving factors. Further, a strong current second wave in the pandemic and current lockdown in Karnataka could hamper the growth prospects and would be key monitorable.

**Thin profitability, low bargaining power and pricing constraints** – BAAIPL's profit margins have historically been thin, given the nature of the dealership business where the commission is decided by the principal. BAAIPL also faces revenue concentration as its entire revenues are solely dependent on a single principal, MSIL. With thin profitability, the debt coverage indicators have remained at moderate level of interest cover at 2.3 times and DSCR at 1.2 times in FY2020. However, with the cost rationalisation efforts which including trimming of workforce and shutting down of a loss making True Value store have led to margin improvement in FY2021 also resulting in better debt coverage indicators. The company's ability to sustain the cost structure improvements and debt coverage metrics remains to be seen.

**Intense competition** – The automotive dealership industry is highly competitive with stiff competition from other dealerships. Intense competition from the dealers of other OEMs also exerts pressure on BAAIPL's sales volumes and margins. Moreover, the incremental investment requirement to regularly upgrade the dealership outlets, in line with the principal's marketing strategy, keeps the cash flows of the dealerships under pressure.

## Liquidity position: Adequate

The company availed moratorium on its term loan from Kotak Mahindra Bank in Q1FY2020 under the Covid relief scheme. It has repayments of Rs. 7.5 crore over FY2022. BAAIPL's liquidity is expected to remain adequate, evidenced by its moderate cash and liquid investments and undrawn working capital facilities. ICRA notes that the same has been supported by thinner than usual stock levels over the last few quarters.

## Rating sensitivities

**Positive factors** – ICRA could upgrade BAAIPL's rating if the company is able to scale up the operations while improving profitability. That apart the strong market recovery aided by improvement in the consumer sentiments would remain a key rating consideration. Specific credit metrics would be DSCR of more than 3.0 times on a sustained basis.

**Negative factors** – Negative pressure on rating could arise if there is any decline in the revenues due to the expected second wave of Covid-19 followed by lockdown impacting the margins and coverage indicators. Any major debt funded capital expenditure or increase in working capital intensity leading to tightened liquidity position would trigger for rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Automobile Dealerships</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

## About the company

Established in 2002 as a partnership firm in Bangalore, Bimal Auto Agency is an authorised Maruti Suzuki India Limited (MSIL) passenger car dealer. In 2011, its constitution was changed to a private limited company. Its operations, however, started from Guwahati (Assam) in 1970. It is a family-owned business with Mr. Naveen Sarawgi as the Chief Executive Officer. The company has presence across 18 locations in Bangalore, with more than 23 outlets including showrooms, true-value outlets, NEXA showroom and sales and spare outlets. Besides, it operates ten driving schools in Bangalore.

## Key financial indicators (audited)

BAAIPL	FY2020	9M FY2021*
Operating Income (Rs. crore)	714.8	416.9
PAT (Rs. crore)	5.0	6.2
OPBDIT/OI (%)	2.5%	3.2%
PAT/OI (%)	0.7%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.8
Total Debt/OPBDIT (times)	1.9	0.8
Interest Coverage (times)	2.3	5.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Provisional numbers

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

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
						Mar 24, 2020	Apr 18, 2019		
1	Unallocated	Long-term	24.0	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Fund based facilities	Long-term	24.0	-	-	-	-	-	[ICRA]BBB (Stable)

## 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 [click here](https://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	Unallocated	NA	NA	NA	24.0	[ICRA]BBB (Stable)

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis

Company Name	BAAIPL Ownership	Consolidation Approach
NA	NA	NA

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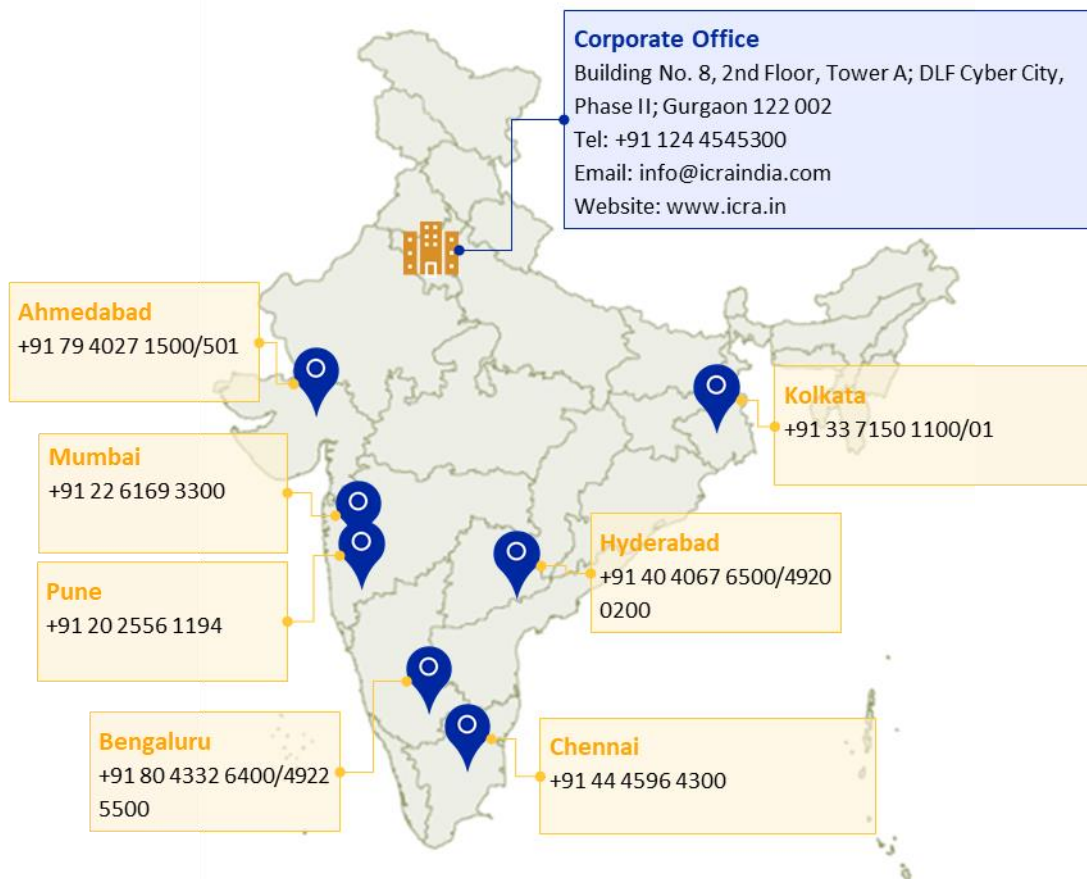


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### Branches



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