

June 18, 2021

M.M.Vora Automobiles Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	24.50	24.50	[ICRA]B+(Stable); Reaffirmed
Total	24.50	24.50	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in M.M. Vora Automobiles Private Limited's (MMVAPL or the company) long-standing relationship with its principal Mahindra & Mahindra Limited (M&M) by virtue of being dealer for its passenger vehicle (PV) and utility vehicle (UV) segment in Gujarat. The company also benefits from the extensive experience of the promoters in the auto dealership business; the presence of MMVAPL's multiple showrooms in Vadodara, Anand and Nadiad, and its aligned servicing facilities.

The rating, however, remains constrained by the weak financial risk profile of the company as evident by the adverse capital structure and weak debt coverage indicators as on FY2020-end on account of low profitability and high working capital borrowing levels. The revenue posted a sharp decline in FY2021 because of demand slowdown due to ongoing Covid-19 pandemic and operating losses were witnessed in FY2020 as the company cleared BS-4 inventory at a discount. The rating continues to factor in the intense competition faced by MMVAPL from other dealerships in its operating region and the susceptibility of MMVAPL's operations to any slowdown in the automobile industry.

The Stable outlook on [ICRA]B+ rating reflects ICRA's opinion that MMVAPL will continue to benefit from the established relationship with M&M and the extensive experience of the promoters in the auto dealership business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in auto dealership business – Promoted by the Vora family, which has been in the automobiles dealership business since 1932, MMVAPL is an authorised vehicle dealer of M&M. MMVAPL has its dealership network in Anand, Nadiad and Vadodara. Along with car sales, some of the showrooms also serve as servicing stations.

Proven market position of principal M&M in domestic PV and UV segments – M&M is the fourth largest player with ~6% market share¹ in the domestic PV market and third largest player in the UV market with ~15% domestic market share as of FY 2021 end. Hence, MMVAPL leverages on the long-standing presence and brand recall of M&M in the domestic auto market for pushing its sales.

Credit challenges

Decline in revenue in FY2021 coupled with operating losses in FY2020 – The company's operating income witnesses the steep decline of ~34% to Rs. 136 crore in FY2021 (provisional financials) from ~Rs. 205 crore in FY2020, which in turn declined from ~Rs. 217 crore in FY2019. This was primarily due to the lockdown starting from March 2020 end till May 2020 end coupled

¹ Source – Society of Indian Automobile Manufacturers (SIAM)

with weak consumer sentiments amid covid-19 pandemic. The company reported operating losses in FY2020 as the company cleared BS-4 inventory at discounted prices. The GOI had announced that with effect from April 01, 2021, sales and registrations of BS-4 will not be allowed.

Low net-worth base and weak debt coverage indicators – The company's net-worth turned negative in FY2020 on account of net loss of ~Rs. 4 crore in FY2020. However, the same turned marginally positive at Rs. 0.4 crore as on FY2021-end (provisional financials). The debt coverage indicators also remained weak as reflected by interest cover and DSCR below 1 times as on FY2020-end, though the same has improved in FY2021, with a turnaround of operations.

Intense competition among dealers of M&M and other OEMs – MMVAPL's faces competition from other M&M dealers as well as from other four-wheeler OEMs, given the presence of several established players in the PV/UV segment. Further, the company's operations are also susceptible to any prolonged slowdown in the automobile industry.

Liquidity position: Stretched

MMVPL's liquidity is expected to remain stretched, given the scheduled debt repayments and limited cushion available in working capital limits (the average utilisation of 86% during the 14-month period of March -April 2021). However, timely financial support by the way of unsecured loans from promoters, as witnesses in the past, with no major capex plans provides some comfort.

Rating sensitivities

Positive factors – ICRA could upgrade MMVAPL's ratings if the company demonstrates substantial growth in revenue and profitability, which leads to higher-than-expected cash accruals. Additionally, substantial equity infusion leading to increase in net worth, debt coverage indicators and liquidity on a sustained basis is a credit positive.

Negative factors – Negative pressure on the company's ratings could arise if revenue or profitability declines substantially, leading to inadequate cash accrual. Moreover, any higher-than-expected debt-funded capex or stretch in the working capital cycle that leads to deterioration in capital structure and liquidity could lead to rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Automobile Dealerships
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of M.M.Vora Automobiles Pvt. Ltd.

About the company

M.M. Vora Automobiles Private Limited (MMVAPL) is promoted and managed by the Vora family of Vadodara (Gujarat). At present, MMVAPL is involved in the automobile dealership of Mahindra & Mahindra Limited (M&M) and has showrooms and servicing facilities in Vadodara, Anand and Nadiad in Gujarat. Prior to becoming dealers for M&M, the promoters had varied business interest such as sale of spare parts, transportation business, and sub-dealership of Ford Motors & Lambretta Scooters.

Key financial indicators (audited)

MMVAPL Standalone	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	217	205	136
PAT (Rs. crore)	0	(4)	3
OPBDIT/OI (%)	2%	0%	4%
PAT/OI (%)	0%	-2%	2%
Total Outside Liabilities/Tangible Net Worth (times)	27	(18)	74
Total Debt/OPBDIT (times)	9	(71)	5
Interest Coverage (times)	1	(0)	2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company data, ICRA research; * provisional financials

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 Mar 31, 2021 (Rs. crore)	Date & Rating in Jun 18, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Cash Credit	Long-term	24.50	--	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based Working Capital	Simple

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 analyzing 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, is available on ICRA's 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	Cash Credit	NA	NA	NA	24.50	[ICRA]B+(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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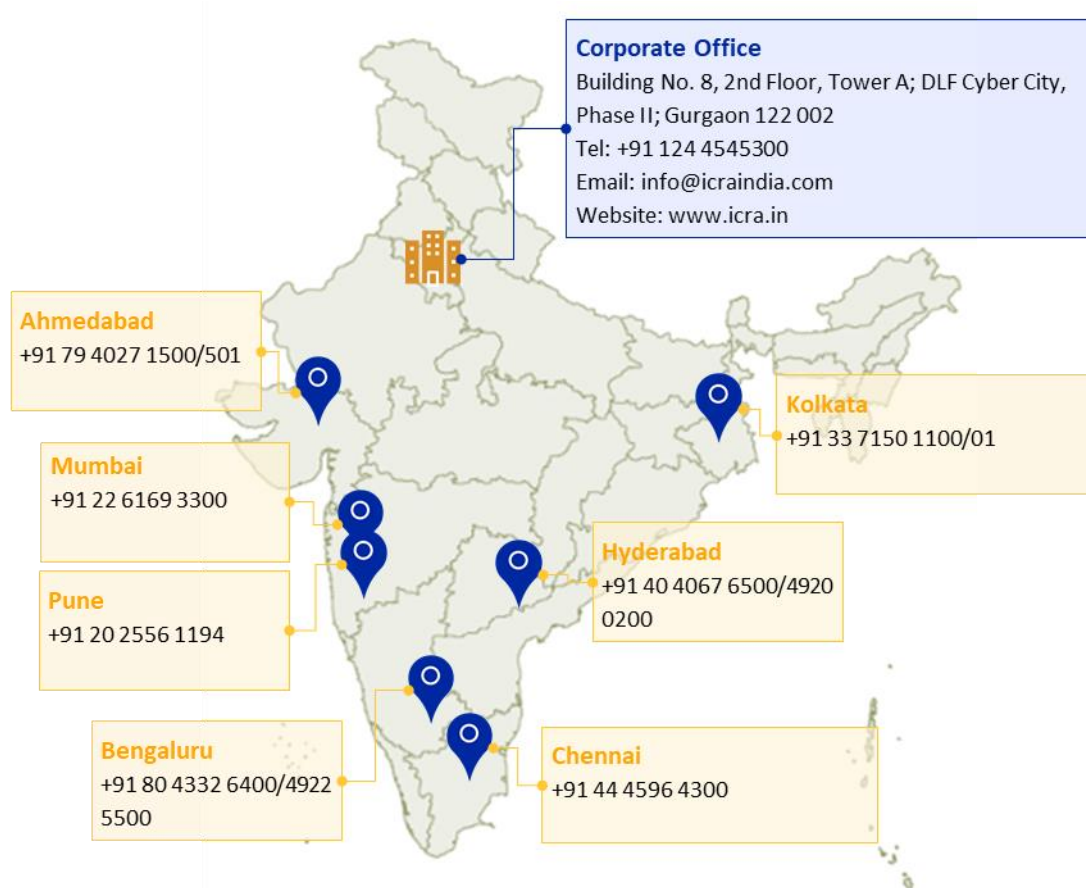


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