

February 29, 2024

## Globe Automobiles 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 – Cash Credit	117.50	121.95	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Term Loan	44.83	41.67	[ICRA]BBB (Stable); reaffirmed
Long-term/Short-term – Unallocated	37.67	36.38	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed
<b>Total</b>	<b>200.00</b>	<b>200.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in Globe Automobiles Private Limited’s (Globe Auto/the company) long track record and its established position as one of the largest authorised dealers of Toyota Kirloskar Motor Private Limited (Toyota) in the Haryana, Punjab and Chandigarh regions with eight showrooms. ICRA expects the company’s financial profile to remain comfortable supported by its healthy profitability and return indicators. The company also does not have any major debt-raising plans, thus its coverage metrics are expected to remain healthy over the medium term. In addition, the company continues to have a short working capital cycle due to low inventory holding and adequate liquidity profile, supported by free cash balances and adequate inventory-funding facility.

The ratings are, however, constrained by the competition faced by the company from other Toyota dealers as well as dealers of other original equipment manufacturers (OEMs). In FY2024, the company’s volume growth is expected to be moderate partly owing to moderate offtake allocated by the OEM. The company has extended corporate guarantees to two other group companies. Any additional sizeable funding support to group companies will be a rating monitorable as it can lead to a pressure on its financial profile.

The Stable outlook on the [ICRA] BBB rating reflects ICRA’s opinion that the company’s earnings would be supported by new model launches by Toyota and the OEM’s good market position and healthy market share of utility vehicles (UVs) within the passenger car segment.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in auto-dealership business, part of Chandigarh-based JCBL Group** – Globe Auto has been the authorised dealer of Toyota’s vehicles for Haryana, Punjab and Chandigarh since 2002. The proven track record in the dealership business, coupled with its presence across 12 locations, supports the company’s growth prospects to an extent. Globe Auto is one of the largest dealers of Toyota in North India, contributing a notable share in Toyota’s domestic sales. Globe Auto is a part of the JCBL Group, based out of Chandigarh. The promoters have a rich experience in the automobile sector, with a presence through various entities, since 1989.

**Healthy profitability and return indicators supported by high contribution from spares and service income** – Globe Auto has been reporting healthy profitability and RoCE on account of a relatively high revenue contribution from its spares and service income. The operating profit margin (OPM) remained healthy in FY2022 and FY2023 at 5.7% and 6.1% (3.8% in FY2020), respectively, and is expected to continue along similar lines, going forward. Further, in the absence of any major capex needs

and the fact that the business has moderate working capital identity, the company’s return metrics are also healthy as reflected by RoCE of ~30.3% in FY2023, an increase from ~21.7% in FY2022.

**Comfortable financial profile** – Globe Auto’s debt (including lease liability) declined to Rs. 76.1 crore as on March 31, 2023, from Rs. 90.7 crore as on March 31, 2022, led by the repayment of scheduled term debt and modest working capital debt needs. The working capital debt requirement is low due to a short working capital cycle led by limited debtors, modest inventory and credit period availed. Reduction in finance cost, coupled with improved operating profit has led to improvement in interest coverage and DSCR to 6.1 times (3.5 times in FY2022) and 1.8 times (1.4 times in FY2022), respectively, in FY2023. Including debt guaranteed for group entities, the company’s net debt/OPBDITA stood at 1.4 times in FY2023 compared to 2.6 times in FY2022.

### Credit challenges

**Highly competitive auto dealership business** – The automotive dealership industry is highly competitive with stiff competition from other Toyota dealerships. The competitive intensity from dealers of other OEMs also exerts pressure on sales volumes and margins. As a policy, the OEM allocates certain volumes to its dealers. Globe Auto’s volume growth would remain largely stable in FY2024 in line with the volume allocation, as well as the competitive intensity of the business.

**Support to group entities in the form of corporate guarantees** – Globe Auto has extended corporate guarantees of ~Rs. 43.0 crore as of March 2023 towards its group companies. Any further support to them, in the form of corporate guarantee or otherwise, can lead to a pressure on its financial profile. ICRA notes that apart from the said guarantees, there are no other operational linkages with group entities.

### Liquidity position: Adequate

Globe Auto’s liquidity position is **adequate** on account of its low reliance on working capital funding (inventory funding) and sufficient cash and liquid investments. The company had ~Rs. 24 crore of free cash/bank balance and ~Rs. 26 crore of liquid investments as on December 31, 2023, which lend comfort for the repayment liability and day-to-day operational expenses. The company has ~Rs. 9-10 crore of annual repayment obligations over the next 4-5 years. Moreover, the company generates comfortable net cash accruals from its business.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company demonstrates an improvement in scale while maintaining its healthy profit margins and credit profile along with a comfortable liquidity position, on a sustained basis.

**Negative factors** – ICRA could downgrade the ratings if there is a sharp decline in revenue and profitability, or if the company undertakes any major debt-funded capex or extends sizeable support to group entities, resulting in the weakening of its credit profile on a sustained basis. Additionally, net debt (including corporate guarantee extended by Globe Auto<sup>1</sup>)/OPBDITA higher than 3.0 times, on a sustained basis, would be a negative rating factor.

### Analytical approach

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

<sup>1</sup> Total debt plus corporate guarantee extended less free cash/liquid investment.

## About the company

Globe Auto has been an authorised dealer of Toyota's vehicles since 2002. The company started its operations from Karnal and Ambala (Haryana) in 2002. The company has sales, spares and service (3S) outlets in Karnal, Ambala, Panipat, Yamunanagar and Kaithal in Haryana; Ludhiana and Sangrur in Punjab; and Mohali in Chandigarh. In addition, the company has spares and service (2S) outlets in Kurukshetra, Assandh, Jind and Mohali.

### Key financial indicators (audited)

Globe Auto standalone	FY2022	FY2023
Operating income	657.4	869.0
PAT	16.9	30.1
OPBDIT/OI	5.7%	6.1%
PAT/OI	2.6%	3.5%
Total outside liabilities/Tangible net worth (times)	2.4x	1.5x
Total debt/OPBDIT (times)	2.4x	1.4x
Net debt* (including corporate guarantees)/OPBDIT (times)	2.6x	1.4x
Interest coverage (times)	3.5x	6.1x

Source: Company, \* Total debt plus corporate guarantee extended less free cash/liquid investment.

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

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

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023		
				Feb 29, 2024	Nov 01, 2022	Oct 28, 2022	
1 Cash Credit	Long Term	121.95	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2 Term Loans	Long Term	41.67	41.67	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2 Unallocated	Long Term/ Short Term	36.38	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-

Source: Company, \*as on Dec 31, 2023

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – Term Loan	Simple
Long-term/Short-term –Unallocated	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	121.95	[ICRA]BBB (Stable)
NA	Term Loans	April 2017	NA	March 2027	41.67	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	36.38	[ICRA]BBB (Stable)/ [ICRA]A3+

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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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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