

February 29, 2024

The Mithra Agencies (Hyderabad): 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	10.00	10.00	[ICRA]BB+ (Stable) reaffirmed
Long-term-Fund based-Term loan	0.45	0.45	[ICRA]BB+ (Stable) reaffirmed
Short-term-Fund based-Cash credit	29.80	29.80	[ICRA]A4+ reaffirmed
Total	40.25	40.25	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in The Mithra Agencies (TMA) established presence as a dealer of Maruti Suzuki India Limited's (MSIL) PVs in the Hyderabad region with 12 outlets including sales, servicing, true-value outlets. The ratings consider the strong market position of the principal, MSIL, in the domestic passenger car industry, supporting the revenues. TMA recorded a healthy revenue growth of ~22% in FY2023, on the back of increase in vehicle volume sales and prices. TMA's revenue growth is expected to moderate to 7-10% in FY2024 and FY2025, due to the proposed launch of new showrooms in Q4 FY2024 and FY2025.

However, the ratings are constrained by a moderate scale of operations as indicated by revenues of Rs. 219.4 crore in FY2023. The ratings also consider the thin operating margins inherent to the auto dealership business and the firm's moderate financial profile. The firm's operating margin declined marginally by ~30 bps in FY2023, owing to high discounts and is expected to remain at similar level, going forward. Increase in inventory holding of ~40 days is expected to result in high working capital borrowings and marginal moderation in coverage indicators. The ratings continue to be constrained by the intense competition from other dealers of MSIL and OEMs, and the risk of capital withdrawal, given the partnership nature of the firm.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that TMA will continue to record healthy growth in revenues and earnings benefiting from the extensive experience of the promoters in the dealership business and from MSIL's strong market position.

Key rating drivers and their description

Credit strengths

Established position in PV dealership business - TMA was the first authorised dealer of MSIL's PVs in Hyderabad and thus, has a reputed presence in the Hyderabad market. The firm is promoted by Mr. Bhaskara Murthy and Mr. Chandramouli Sarma, who have more than 25 years of experience in the car dealership business. Mr. Venkata Siva Subhramanyam joined the firm on April 1, 2022 post exit of Mr. Ramalingam.

Strong market position of MSIL in domestic PV Industry - MSIL has a strong market position in the PV industry with a market share of 42.2% in 8M FY2024, supporting the revenues for dealers like TMA.

Credit challenges

Moderate scale of operations - The firm's scale of operations is moderate with revenue of Rs. 219.4 crore in FY2023, despite the healthy growth of 22% during the year. While the firm is expected to record revenue growth of 7-10% in the next two years, its scale is expected to remain moderate in the near term.

Moderate capital structure and coverage indicators - The firm's financial profile remains moderate, characterised by gearing of 2.2 times, Total Debt/OPBITDA of 5.8 times (3.5 times in FY2022), and interest coverage of 2.2 times (2.3 times in FY2022) in FY2023. The firm's debt levels increased owing to high inventory holding. The firm's debt metrics are expected to moderate marginally, going forward, given the expected increase in inventory days (~40 from 30-35); however, the same are expected to remain moderate.

Intense competition and geographical concentration of revenues – TMA's operations are limited to Hyderabad, exposing the firm to demand and adverse event risks specific to the region. In addition, the firm faces intense competition from other dealers of MSIL and other car manufacturers, limiting its margins.

Risk of capital withdrawals given the partnership nature of TMA – The firm is exposed to the risk of capital withdrawals, given the partnership nature of the business.

Liquidity position: Adequate

The firm's liquidity is adequate, with buffer of ~Rs. 25-30 crore in working capital limits as on December 31, 2023, against repayment obligations of ~Rs. 1.5-2 crore in the next 12 months and capex plans of ~Rs. 2-4 crore.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is substantial improvement in the scale of operations, along with stable profit margins leading to overall improvement in credit metrics. A specific credit metric that could lead to an upgrade of ratings is if interest cover is more than 3.0 times, on a sustained basis.

Negative factors – The ratings could be downgraded if a significant decline in revenues or lower profit margins impact its credit metrics. Any stretch in the working capital cycle impacting the firm's liquidity position may also put pressure on its ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Automobile Dealers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity.

About the company

The Mithra Agencies (TMA) is a partnership firm established in 1988. TMA is the first MSIL dealer in passenger cars in Hyderabad. The company is involved in sales of new and used cars along with spare parts and servicing of vehicles. The firm operates 12 facilities in Hyderabad, including new car sales showrooms, service centres, pre-owned car showrooms, and driving school. TMA is ranked in Royal Platinum category by MSIL.

Key financial indicators (audited)

TMA Standalone	FY2022	FY2023
Operating income	179.8	219.4
PAT	0.5	0.6
OPBDIT/OI	2.7%	2.4%
PAT/OI	0.3%	0.3%
Total outside liabilities/Tangible net worth (times)	1.9	2.7
Total debt/OPBDIT (times)	3.5	5.8
Interest coverage (times)	2.3	2.2

Source: Company, ICRA Research; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for past three years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
				Feb 29, 2024	Dec 5, 2022	Dec 31, 2021	Oct 1, 2020
1 Term loans	Long term	0.45	0.45	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Cash Credit	Long term	10.0	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3 Inventory funding	Short term	29.8	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Fund based/Term Loan	Simple
Long-term – Fund-based/ Cash Credit	Simple
Short Term- Fund Based	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 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	Term Loan-I	FY2019	NA	FY2025	0.45	[ICRA]BB+(Stable)
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BB+ (Stable)
NA	Inventory funding	NA	NA	NA	29.80	[ICRA]A4+

Source: Company

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

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