

April 17, 2024

## Frostees India Private Limited: [ICRA]BB+(Stable)/[ICRA]A4+; assigned

### Summary of rating action

| Instrument*   | Current Rated Amount<br>(Rs. crore) | Rating Action                          |
|---|-------------------------------------|--|
| Long-term – Fund-based – Cash Credit                | 18.00                               | [ICRA]BB+ (Stable); Assigned           |
| Long-term – Fund-based – Inventory Funding Facility | 48.00                               | [ICRA]BB+ (Stable); Assigned           |
| Long-term – Fund-based – Term Loan                  | 10.77                               | [ICRA]BB+ (Stable); Assigned           |
| Short-term – Fund-based – PCFC                      | 10.00                               | [ICRA]A4+; Assigned                    |
| Short-term – Non-fund Based – LC/BG                 | 10.00                               | [ICRA]A4+; Assigned                    |
| Long-term/ Short-term –Unallocated                  | 3.23                                | [ICRA]BB+(Stable)/[ICRA] A4+; Assigned |
| <b>Total</b>  | <b>100.00</b>                       |  |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings consider Frostees India Private Limited's (FIPL) established position of as a major dealer of Hyundai Motor India Ltd's (HMIL's) passenger vehicles (PV) in West Bengal and Assam. HMIL's healthy market share in the domestic PV industry augurs well for the company's growth prospects. Moreover, the company has diversified revenue streams with presence in mobile exports and skill development projects as well. However, ICRA notes that the revenues from mobile exports have moderated sharply in the past five months owing to unfavourable prices and subdued demand from its only customer in the UAE. The ratings also consider the promoters' extensive experience in the dealership business by virtue of dealerships of multiple Original Equipment Manufacturers (OEMs).

The ratings, however, are constrained by thin margins inherent to the dealership and trading (mobile export) business, which has resulted in moderate net worth and debt metrics as indicated by Total Debt/ OPBITDA of 4.1 times in FY2023. The rating also considers the high competition in the auto dealership industry from dealerships of the HMIL and other OEMs. The company has an elongated receivables cycle owing to delays in payments in its skill development projects, which has also resulted in high working capital borrowings.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will record steady growth in revenues and earnings, especially driven by its skill development projects and dealership business.

### Key rating drivers and their description

#### Credit strengths

**Established position of the company as dealer of HMIL's PVs** – The company is an authorised dealer of HMIL's PVs in West Bengal and Assam, with a network of 15 outlets in West Bengal and five in Assam. The company has seven showrooms in West Bengal across the three districts of Kolkata, Hooghly and North 24 Parganas. The company also operates in Assam, mainly in Guwahati and nearby areas, from four showrooms in Guwahati and Kamrup districts. The company is also a distributor of Ford India Private Limited's (FIPL's) spare parts. It procures spare parts from FIPL and sells them to local mechanic shops.

**Diversified revenue streams** – The company has diversified revenue streams from its PV dealership, spare parts distribution, mobile exports and skill development projects. The dealership business is expected to record a steady single-digit growth in FY2024 and FY2025 driven by stable demand for HMIL's PVs in its markets. HMIL's healthy market share in the domestic PV

industry augurs well for the company’s growth prospects. FIPL has a healthy order book for skill development projects and is expected to record a healthy growth from this segment. However, revenues from mobile exports have declined sharply since October 2023 owing to subdued demand from its only customer in the UAE.

**Experienced promoter group in auto-dealership** – FIPL’s promoters have extensive experience in the dealership business and the promoter group has interests in various dealerships of multiple OEMs.

### Credit challenges

**Thin margins leading to moderate net worth and debt metrics** – The company’s operating margin has been thin at ~3.0-3.5% owing to low margins in the mobile export/ trading segment and auto dealership business as low margin vehicle sales dominate the revenue mix. FIPL’s mobile export segment sells to a single customer in the UAE at thin gross margins. Low margins over the years have resulted in moderate net worth and leveraged capital structure as indicated by Total debt/ OPBITDA of 3.8 times in FY2023.

**High competition from other OEMs and dealers of same OEM** – 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 FIPL’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 under pressure. FIPL’s operations are limited to Kolkata and Guwahati, exposing the firm to demand and adverse event risks specific to these markets.

**Stretched receivables cycle in skill development projects** – The company has an elongated receivables cycle owing to delays in payments for its skill development projects, which has also resulted in high working capital borrowings. The company typically receives payments with 3-6 months delay from certain clients, while delays from others could stretch up to a year.

### Liquidity position: Adequate

The company’s liquidity position is adequate as indicated by buffer of Rs. 23 crore in undrawn working capital limits as on December 31, 2023. It is expected to generate retained cash flows of Rs. 14-15 crore in FY2025, against which it has repayment obligations of Rs. 1.3-1.5 crore in Q4 FY2024 and Rs. 7-10 crore in FY2025. The company is expected to incur capex of Rs. 2.0-2.5 crore in FY2025.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if the company records a significant scale up in revenues, while improving margins leading to improvement in debt metrics.

**Negative factors** – The rating could witness a downward revision if any material moderation in revenue or margins impacts its debt metrics or liquidity position. Specific metric that could lead to a downgrade is interest coverage ratio of less than 2.5 times on a sustained basis.

### Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology-Automobile dealers</a>    |
| Parent/Group support            | Not applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financials of Frostees India Private Limited. |

## About the company

Incorporated in 1976, Frostees Export (India) Private Limited was taken over by the Kolkata-based Himatsingka family in 1998. It is an authorised dealer of HMIL's PVs in Kolkata, Hooghly, and North 24 Parganas districts of West Bengal, as well as in the Guwahati and Kamrup districts of Assam. The company is also engaged in distribution of spare parts of Ford vehicles, mobile phone exports and skill development projects for the Central and state governments.

## Key financial indicators (audited)

| FIPL Consolidated                                    | FY2022 | FY2023 |
|--|--------|--------|
| Operating income                                     | 493.6  | 675.9  |
| PAT  | 5.0    | 11.3   |
| OPBDIT/OI  | 2.8%   | 3.0%   |
| PAT/OI   | 1.0%   | 1.7%   |
| Total outside liabilities/Tangible net worth (times) | 2.6    | 2.2    |
| Total debt/OPBDIT (times)                            | 4.7    | 4.1    |
| Interest coverage (times)                            | 2.2    | 3.2    |

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

## Status of non-cooperation with previous CRA:

CARE Ratings Ltd., vide its press release dated, January 5, 2024, stated that it had reviewed the ratings on Frostees India Private Limited on the basis of the best available information, which in its opinion was not sufficient to arrive at a fair rating, and that FIPL had not paid the surveillance fees for the rating exercise as per its Rating Agreement. The rating on FIPL's bank facilities had been denoted as CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING.

Brickwork Ratings Ltd., vide its press release dated, July 14, 2023, stated that it had reviewed the ratings on Frostees India Private Limited based on the best available information, which in its opinion was not sufficient to arrive at a fair rating. The rating on FIPL's bank facilities were denoted as BWR BB- Stable/BWR A4; ISSUER NOT COOPERATING.

Any other information: None

## Rating history for past three years

| Instrument                   | Type                     | Current rating (FY2025)  |   | Chronology of rating history for the past 3 years |                         |                         |                         |
|------------------------------|--------------------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|                              |                          | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2023 (Rs. crore) | Date & rating in FY2025                           | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|                              |                          |                          |   | April 17, 2024                                    | -                       | -                       | -                       |
| 1 Cash Credit                | Long term                | 18.00                    | -   | [ICRA]BB+ (Stable)                                | -                       | -                       | -                       |
| 2 Inventory Funding facility | Long term                | 48.00                    | -   | [ICRA]BB+ (Stable)                                | -                       | -                       | -                       |
| 3 Term Loan                  | Long term                | 10.77                    | 10.77   | [ICRA]BB+ (Stable)                                | -                       | -                       | -                       |
| 4 PCFC                       | Short term               | 10.00                    | 10.00   | [ICRA]A4+   | -                       | -                       | -                       |
| 5 LC/BG                      | Short term               | 10.00                    | -   | [ICRA]A4+   | -                       | -                       | -                       |
| 6 Unallocated                | Long term and short term | 3.23                     | --  | [ICRA]BB+ (Stable) / [ICRA]A4+                    | -                       | -                       | -                       |

## Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|---|----------------------|
| Long-term fund-based – Term Loan                  | Simple               |
| Long-term fund-based – Inventory Funding facility | Simple               |
| Long-term fund-based – Cash Credit                | Simple               |
| Short-term fund-based – PCFC                      | Simple               |
| Short-term non fund-based – LC/BG                 | Very 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   | Term Loan-I        | FY2021           | NA          | FY2025   | 4.21                     | [ICRA]BB+ (Stable)               |
| NA   | Term Loan-II       | FY2023           | NA          | FY2029   | 1.76                     | [ICRA]BB+ (Stable)               |
| NA   | Term Loan-III      | FY2021           | NA          | FY2026   | 2.41                     | [ICRA]BB+ (Stable)               |
| NA   | Term Loan-IV       | FY2023           | NA          | FY2028   | 2.39                     | [ICRA]BB+ (Stable)               |
| NA   | Cash Credit        | NA               | NA          | NA       | 18.00                    | [ICRA]BB+ (Stable)               |
| NA   | PCFC               | NA               | NA          | NA       | 10.00                    | [ICRA]A4+                        |
| NA   | Bank Guarantee     | NA               | NA          | NA       | 10.00                    | [ICRA]A4+                        |
| NA   | Inventory Funding  | NA               | NA          | NA       | 27.00                    | [ICRA]BB+ (Stable)               |
| NA   | Inventory Funding  | NA               | NA          | NA       | 21.00                    | [ICRA]BB+ (Stable)               |
| NA   | Unallocated Limits | NA               | NA          | NA       | 3.23                     | [ICRA]BB+ (Stable)/<br>[ICRA]A4+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

| Company Name                   | FIPL Ownership | Consolidation Approach |
|--------------------------------|----------------|------------------------|
| Frostees India Private Limited | 100.00%        | Full Consolidation     |
| MTA Learning private Limited   | 100.00%        | Full Consolidation     |

Source: FIPL annual report FY2023

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