

June 21, 2024

Sree Krishna Automotives Hyd. Pvt. Ltd.: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|---|
| Long-term – Fund-based – Cash Credit | 88.50 | 135.75 | [ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount |
| Long-term – Fund-based – Term Loan | 5.82 | 3.18 | [ICRA]BBB (Stable); reaffirmed |
| Long-term/Short-term – Unallocated Limits | 5.68 | 11.07 | [ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed and assigned for enhanced amount |
| Total | 100.00 | 150.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating action considers ICRA's expectation that Sree Krishna Automotives Hyd. Pvt. Ltd. (SKAHPL) will maintain a comfortable credit profile on the back of stable revenues, earnings and debt protection metrics in the absence of any debt-funded capex plans. The company's operational profile remains supported by its established track record as an authorised dealer of Honda Cars India Limited (Honda), FCA India Automobiles Private Limited (Jeep), PCA Automobiles India Private Limited (Citroen) and Jaguar Land Rover Limited (JLR) passenger vehicles (PVs) and Ather Energy Limited (Ather) two-wheelers (2Ws) in Telangana. SKAHPL has over 20 touch points across Hyderabad, Nalgonda and Warangal. The company clocked a revenue growth of ~9% in FY2024 (provisional) on the back of stable demand for Honda, JLR and Citroen PVs and Ather 2Ws, while Jeep PV sales volumes declined by ~57% owing to weak demand.

The company's revenue growth is expected to be flat in FY2025 on account of expected contraction in Jeep PV volumes and lower sales in Q1 FY2025 due to the effect of adverse weather conditions and the General Elections on demand. However, volumes are expected to improve in H2 FY2025 (festive season). The company's margins are likely to contract marginally owing to reduction in dealer commission on a few vehicles, despite which SKAHPL is expected to maintain comfortable debt metrics with proposed gearing of less than 1.0 times and interest cover of over 4.0 times in FY2025. ICRA notes that SKAHPL's high share of revenues (21% in FY2024) from spares, services, and incentives, given its presence in the luxury car segment, supports its operating margins.

The ratings, however, remain constrained by the intense competition in the automobile dealership industry in India and limited bargaining power of dealers, with pricing policies decided by principal Original Equipment Manufacturers (OEMs). The ratings also consider the subdued performance of principle OEMs such as Jeep and Honda because of limited new launches, which led to loss of their market share and impacted SKAHPL's volume growth. Moreover, high waiting periods for JLR PVs, with demand outstripping supply, has also limited SKAHPL's volume growth.

The Stable outlook reflects ICRA's expectation that SKAHPL will continue to record healthy earnings on the back of high share of service and spare income, which would support the company in maintaining a comfortable credit profile.

Key rating drivers and their description

Credit strengths

Established position as dealer of Honda, Jeep, Citroen, Ather and JLR in Telangana – The company is the exclusive dealer in Telangana for JLR and Citroen, while other dealerships are non-exclusive in nature. It has over 20 showrooms and nine service workshops across Hyderabad, Nalgonda and Warangal. The promoters have been engaged in the dealership business for more than 15 years, which has helped SKAHPL in developing its brand in Hyderabad.

Healthy financial profile – SKAHPL's operating margins are supported by increasing share of revenues from spares, services, and incentives, which together accounted for 21% of its revenues in FY2024. While the company's operating margin is expected to moderate in FY2025 on account of reduced commission on a few models, it is expected to be healthy. The company's capital structure is comfortable with a gearing of 0.7 times as on March 31, 2024, and its debt metrics are healthy with an interest coverage of 5.7 times, total debt/OPBDITA of 2.0 times, and DSCR of 1.8 times in FY2024. Despite the expected moderation in margins, its debt metrics are expected to remain comfortable, going forward.

Credit challenges

Subdued performance of principal OEMs impact volume growth – The company's volume growth is expected to be muted in FY2025 on account of subdued performance of a few of its principal OEMs. Limited new launches from principal OEMs such as Honda and Jeep have impacted the company's volume growth. Moreover, high waiting periods for JLR PVs, with demand growth outstripping supply growth, has also limited SKAHPL's volume growth.

Intense competition among dealers of the same principal and dealers of other OEMs – The company is the authorised dealer for Honda, Jeep, Ather, JLR and Citroen. Its sales and profitability remain susceptible to intense competition from other dealers of these OEMs, as well as other OEMs in the region. The dealers pass on additional benefits and discounts to customers to increase sales, owing to intense competition, which impacts their profitability to an extent.

Liquidity position: Adequate

The liquidity of the company is **adequate** with a buffer of ~Rs. 60-70.0 crore in working capital limits against drawing power along with free cash and bank balances of Rs. 11.0-12.0 crore as on March 31, 2024, against repayment obligations of about Rs. 5.0-7.0 crore in FY2025. Further, the company is not planning to avail any additional term loans in the near term. SKAHPL is expected to incur capex of ~Rs. 16.0-20.0 crore, which would be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade SKAHPL's ratings if the company demonstrates healthy growth in revenues while maintaining healthy profitability, leading to an improvement in the overall credit metrics.

Negative factors – Pressure on SKAHPL's ratings could arise if there is any substantial decline in revenues or profitability margins, or increase in debt levels, impacting its capital structure or coverage metrics. A weakening of the interest coverage ratio to below 2.8 times could also exert negative pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology – Automobile Dealers |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company

Sree Krishna Automotives Hyd. Pvt. Ltd. is a private limited company incorporated on September 29, 2006. SKAHPL started its commercial operations from October 2007 in Hyderabad. It is engaged in the automobile dealership and aftersales service of Honda, Jeep, Citroen, JLR and Ather in Hyderabad. The company operates over 20 showrooms and 11 workshops/service centres in Telangana. The company is promoted by Mr. M. Suresh Reddy and family.

Key financial indicators (audited)

| SKAHPL Standalone | FY2023 | FY2024* |
|--|--------|---------|
| Operating income | 802.8 | 873.8 |
| PAT | 33.4 | 23.0 |
| OPBDIT/OI | 6.9% | 5.4% |
| PAT/OI | 4.2% | 2.6% |
| Total outside liabilities/Tangible net worth (times) | 1.1 | 1.0 |
| Total debt/OPBDIT (times) | 1.6 | 2.0 |
| Interest coverage (times) | 7.6 | 5.7 |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional Numbers

Status of non-cooperation with previous CRA

| CRA | Rating | Last PR Date |
|--------------------------|--|--------------|
| India Ratings & Research | IND BB+/Negative/IND A4+; ISSUER NOT COOPERATING | May 15, 2024 |

Source: India Ratings

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 Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | Jun 21, 2024 | Jun 30, 2023 | May 30, 2022 | - |
| 1 Fund-based – Cash Credit | Long term | 135.75 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB- (Stable) | - |
| 2 Fund-based – Term Loan | Long term | 3.18 | 3.18 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB- (Stable) | - |
| 3 Unallocated Limits | Long term and short term | 11.07 | | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB- (Stable)/ [ICRA]A3 | - |

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 Limits | 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 | Fund-based – Cash Credit | NA | NA | FY2024 | 135.75 | [ICRA]BBB (Stable) |
| NA | Fund-based – Term Loan | 06/04/2022 | 8.0-9.5% | FY2028 | 3.18 | [ICRA]BBB (Stable) |
| NA | Unallocated Limits | NA | NA | NA | 11.07 | [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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