July 29, 2024

Pratham Motors Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based TL	15.30	14.87	[ICRA]BB (Stable); reaffirmed
Long-term – Fund-based CC	57.00	57.50	[ICRA]BB (Stable); reaffirmed
Long-term – Unallocated	0.70	0.63	[ICRA]BB (Stable); reaffirmed
Total	**73.00**	**73.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in Pratham Motors Private Limited's (PMPL) proven operational track record as an authorised dealer of Maruti Suzuki India Limited (MSIL), and its strong market position in Bengaluru. The rating positively factors in MSIL's leadership position in the domestic passenger vehicles (PV) segment. The company's revenue growth of ~6% in FY2024, supported by healthy rise in sales of Nexa models, was offset by subdued demand for sales of Arena models. PMPL is expected to record double-digit growth in revenues in FY2025, supported by stable demand for PVs and new launches by MSIL.

The rating strengths are partially offset by thin margins inherent to the automobile dealership business, as vehicle sales, which contribute a significant part to revenues, command thin margins Besides, competition faced by the company from other MSIL dealers as well as dealers of other original equipment manufacturers (OEMs) exerts pressure on its sales and profit margins. PMPL's operating margins moderated over the past two years on account of increased discounts. Moreover, its earnings were impacted by increased interest costs on account of elevated inventory holding. Timely moderation in inventory holding remains crucial for the company's earnings growth, going forward. This apart, the rating is also constrained by the company's modest debt protection metrics and its asset-liability mismatch. Further, PMPL has relatively higher geographical concentration in the southern region of Bengaluru, exposing its performance to region-specific event risks.

The Stable outlook reflects ICRA's belief that the company will record a steady growth in revenues, while maintaining its margins. PMPL is likely to benefit from its established presence in Bengaluru, and MSIL's position as a market leader in the domestic PV segment, leading to an improvement in its financial profile.

Key rating drivers and their description

Credit strengths

Proven track record of PMPL as an authorised dealer of MSIL's PVs – The company has been an authorised dealer of MSIL's PVs since 2001. PMPL is among the largest authorised dealers for MSIL in Karnataka, with its sales and service network spread across the southern region of Bengaluru. Healthy demand for MSIL's vehicles, along with the company's proven track record and presence in the Bengaluru market, supports its long-term growth prospects.

Extensive experience of promoters in auto dealership business – The promoters have been involved in the automobile dealership business in India since 1998. The company has a healthy presence in the Bengaluru market with 16 showrooms, 13 True Value outlets and 12 service outlets.

Dominant market position of MSIL in domestic PV segment – MSIL has sustained its leadership position in the Indian domestic PV segment (market share of 41.7% in FY2024), driven by the success of its new models and healthy performance of the existing models. PMPL witnessed a marginal volume increase of ~6% in FY2024 due to subdued demand for Arena models, while growth in the Nexa models supported revenues. The company is expected to record double-digit growth in revenues in FY2025, supported by increase in volumes and realisations. MSIL's models like Baleno, Vitara Brezza, Wagon R, Swift and Ertiga were among the best-selling models in the country in FY2023 and FY2024.

Credit challenges

Thin profitability, low bargaining power and pricing constraints – PMPL's profit margins have historically been thin, given the nature of the dealership business, where the commission is decided by the principal. PMPL also faces revenue concentration risk as its entire revenues are solely dependent on a single principal, MSIL. The company's operating margins reduced over the last two years to 3.1% in FY2024 from 4.1% in FY2022, on account of increased proportion of new vehicle sales, which command lower margin than spares or service income and increased discounts. ICRA expects the company to record margins of 3.0-3.5% in FY2025.

Modest financial profile with significant asset-liability mismatch – The company's financial profile is modest, given its thin margins and working capital intensive operations. Its debt metrics moderated in FY2024 on account of correction in margins and increased interest costs due to high inventory holding. This is reflected in an increase in the gearing to 1.5 times as on March 31, 2024 from 1.2 times as on March 31, 2023 and reduction in the interest coverage to 1.9 times in FY2024 from 3.7 times in FY2023. This apart, the company has a significant asset-liability mismatch, wherein its short-term liabilities are higher than its short-term assets.

Intense competition from other MSIL dealers and dealers of other OEMs in the region – The automotive dealership industry is highly competitive with stiff competition from other dealerships. Intense competition from dealers of other OEMs also exerts pressure on PMPL'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 of the dealerships under pressure.

Liquidity position: Adequate

PMPL's liquidity is adequate, as evident from cash and bank balances of Rs. 2.5 crore as on March 31, 2024, and a cushion of Rs. 18.2 core available in working capital limits as on May 31, 2024. It is expected to retain cash flows of Rs. 5.0-10.0 crore against the annual repayment obligation of ~Rs. 6.5 crore in FY2025. The company is also expected to incur capex of Rs. 5.0-7.0 crore in FY2025, which would be funded by a mix of debt and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to scale up operations and improve the profitability, on a sustained basis. Additionally, the company's ability to correct the asset-liability mismatch and improve credit metrics would be considered favourably.

Negative factors – Pressure on the company's rating could arise if the scale of operations or margin deteriorates sharply, leading to weakening of the profitability and debt metrics. A specific credit metric for a rating downgrade includes an interest coverage of less than 2.2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Automobile Dealers Corporate Credit Rating Methodology
Parent/Group support	Not Applicable

Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Pratham Motors Private Limited (PMPL), incorporated in 2002, operates as an authorised dealer for Maruti Suzuki India Limited in Bengaluru. Mr. Shivy Bhasin, the Chairman of PMPL, is an NRI based in Kuwait. He has investments in the automobile and hospitality industries in India and runs an apparel business in Kuwait. At present, the day-to-day operations of the company are handled by his son, Mr. Samar Vikram Bhasin. The promoters have been involved in the automobile dealership business in India since 1998. PMPL's promoters initially entered Honda dealership but exited in 2001 due to operational issues.

PMPL operates 16 sales outlets (including two Nexa showrooms) in and around Bengaluru, with a focus on the southern region of Bengaluru. Along with the sales outlets, the company has 12 service outlets, five driving schools, 13 True Value (pre-owned cars) outlets, and one stockyard. The main showroom is located along the IT corridor area in Southeast Bengaluru (Sarjapur) with new car sales, service, spares, True Value sales and Maruti Driving School facilities (called a 5S facility).

Key financial indicators

PMPL	FY2023	FY2024*
Operating income	455.2	483.7
PAT	7.3	4.7
OPBDIT/OI	3.5%	3.1%
PAT/OI	1.6%	1.0%
Total outside liabilities/Tangible net worth (times)	1.5	2.0
Total debt/OPBDIT (times)	3.8	5.4
Interest coverage (times)	3.7	1.9

*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 financials*

Status of non-cooperation with previous CRA: Not applicable

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 29, 2024	Sep 08, 2023	Sep 29, 2022	Oct 21, 2021
1	**Term loans**	Long term	14.87	**[ICRA]BB(Stable)**	**[ICRA]BB(Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]B+(Stable)**
2	**Fund-based**	Long term	57.50	**[ICRA]BB(Stable)**	**[ICRA]BB(Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]B+ (Stable)**
3	**Unallocated**	Long term	0.63	**[ICRA]BB(Stable)**	**[ICRA]BB(Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]B+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long-term – Fund-based working capital	Simple
Long-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	Long-Term – Term Loan 1	FY2016	NA	FY2026	1.70	[ICRA]BB (Stable)
NA	Long-Term – Term Loan 2	FY2021	NA	FY2026	2.85	[ICRA]BB (Stable)
NA	Long-Term – Term Loan 3	FY2019	NA	FY2026	1.58	[ICRA]BB (Stable)
NA	Long-Term – Term Loan 4	FY2023	NA	FY2029	4.30	[ICRA]BB (Stable)
NA	Long-Term – Term Loan 5	FY2024	NA	FY2030	4.44	[ICRA]BB (Stable)
NA	Long-Term – Fund Based – Working Capital Limits	NA	NA	NA	57.50	[ICRA]BB (Stable)
NA	Long-Term – Unallocated	NA	NA	NA	0.63	[ICRA]BB (Stable)

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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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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