

September 23, 2024

AVG Motors Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	8.00	8.00	[ICRA]BBB (Stable); reaffirmed
Short-term – Fund based – Others	30.00	40.00	[ICRA]A3+; reaffirmed and assigned for enhanced amount
Long-term/Short-term – Unallocated Limits	2.00	2.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	40.00	50.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider AVG Motors Private Limited's (AVG) established operational track record as an authorised dealer of Maruti Suzuki India Limited (MSIL) and its strong market position in central Kerala. The ratings also positively factor in the leadership position of AVG's principal, MSIL, in the domestic passenger vehicle (PV) segment. The company recorded a healthy revenue growth of 18.8% in FY2024 on the back of improved product mix and growth in new car sales volumes. AVG's revenue growth is expected to moderate to high single digit in FY2025 on account of high base while continued demand for PVs is expected to support AVG's revenues. The ratings also consider the company's healthy capital structure and debt protection metrics, as reflected in a gearing of 0.4 times and an interest cover of 6.3 times in FY2024.

The ratings, however, remain constrained by the company's moderate scale of operations in the competitive automobile dealership industry. The ratings also factor in the thin profit margins, inherent to the dealership nature of the business, as new car sales, which dominate the revenue mix, command lower margins. AVG's operating margins improved marginally to 3.1% in FY2024 from 2.7% in FY2023. Margins are expected to remain range-bound in the near term. Further, the ratings consider intense competition from other MSIL dealers and dealers of other original equipment manufacturers (OEMs) in Kerala and high geographical concentration of sales as all the company's showrooms are in central Kerala.

The Stable outlook on the long-term rating reflects ICRA's opinion that AVG will maintain its credit profile with healthy growth in revenues and earnings, supporting comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Extensive track record in automobile dealership business – AVG has been an authorised dealer of MSIL's PVs since 1998. The company has an established presence in Kottayam and Pathanamthitta districts of Kerala, commanding a considerable market share of MSIL's vehicles sold in these locations. At present, the company has five showrooms in Kottayam, Pathanamthitta, and Thiruvalla.

Strong market position of MSIL – AVG's principal dealer, MSIL, is the market leader in the Indian domestic PV segment with a 41.7% market share in FY2024. MSIL's market share is primarily aided by healthy demand witnessed in the market for its products on account of its wide range of offerings. MSIL's leadership position in the PV segment augurs well for AVG.

Comfortable capital structure – The company's capital structure remained comfortable with a gearing of 0.4 times as on March 31, 2024, supported by healthy accruals and absence of long-term debt. However, the company's working capital borrowings more than doubled in FY2024 owing to increased inventory holding. Going forward, the gearing is expected to remain below

0.5 times. The company's debt protection metrics also remained comfortable with an interest coverage of 6.3 times, total debt/OPBIDTA of 1.4 time and DSCR of 5.6 times in FY2024. Going forward, the debt protection metrics are expected to remain healthy. Further, the company's liquidity position remains adequate, characterised by the buffer in its working capital facilities.

Credit challenges

Moderate scale of operations – The company's scale of operations is expected to remain moderate despite expected high single-digit revenue growth in FY2025. AVG's revenue grew by 18.8% in FY2024 on the back of improved product mix and 8% growth in new car sales volumes. Further, the company reported revenue of Rs. 102.8 crore in Q1 FY2025.

Thin profit margin owing to dealership nature of operations – The dealership business is characterised by thin margins and low bargaining power of the dealer as margins on vehicles are determined by the principal. Further, intense competition in the auto dealership business results in low margins. AVG's operating margin improved to 3.1% in FY2024 from 2.7% in FY2023 on the back of operating leverage from improved scale. The company's margins are expected to remain range bound, going forward.

High geographical concentration of sales – The company's showrooms are spread across central Kerala, including Kottayam, Pathanamthitta and Thiruvalla. With high concentration of sales in the said districts, any weakening of the region's economy is likely to have an adverse impact on the company's revenues.

Liquidity position: Adequate

The company's liquidity position is adequate, with cash and bank balances of Rs. 3.5-4.0 crore and a buffer of Rs. 28.0-30.0 crore in working capital limits as on June 30, 2024. The company does not have any repayment obligation. It is expected to incur maintenance capex of ~Rs. 2.0 crore per annum in the near term, which would be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company's sales volume increases, which would improve its profit metrics and net cash accruals, while maintaining a healthy liquidity position.

Negative factors – The ratings could be downgraded if the company's profitability declines on account of muted sales volume, high discounts, or elevated overhead expenses. Specific credit metrics that may trigger ratings downgrade include an interest coverage ratio of less than 2.5 times on a sustained basis.

Analytical approach

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

About the company

AVG Motors Private Limited, incorporated in 1998, is an authorised dealer of Maruti Suzuki India Limited in central Kerala. The company started its operations with only one showroom in Kottayam. As on date, the company has five showrooms in Kottayam, Pathanamthitta, and Thiruvalla. AVG also has booking offices in several parts of Kerala, including, Kollam, Allepey, Idukki and Pala, among others. AVG has six service workshops located in Kottayam, Pathanamthitta, Thiruvalla, Kozhencheery, Pala and Adoor.

AVG is a subsidiary of The Thamarapally Rubber Company Limited, a part of the AV George Group of companies, which was founded in 1937 by Late AV George. The Group's principal activities include rubber and tea plantations. It also has interests in non-agricultural businesses, including the dealership of petroleum products, passenger cars, passenger carriers and trucks.

Key financial indicators

	FY2023	FY2024*
Operating income	354.9	421.7
PAT	4.4	6.1
OPBDIT/OI	2.7%	3.1%
PAT/OI	1.2%	1.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.9
Total debt/OPBDIT (times)	0.8	1.4
Interest coverage (times)	8.3	6.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)					Chronology of rating history for the past 3 years					
FY2025					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash Credit	Long-Term	8.00	Sep 23, 2024	[ICRA]BBB (Stable)	Sep 14, 2023	[ICRA]BBB (Stable)	Oct 07, 2022	[ICRA]BBB (Stable)	Sep 29, 2021	[ICRA]BBB (Stable)
									Nov 08, 2021	[ICRA]BBB (Stable)
Fund based – Others	Short-Term	40.00	Sep 23, 2024	[ICRA]A3+	Sep 14, 2023	[ICRA]A3+	Oct 07, 2022	-	Sep 29, 2021	-
									Nov 08, 2021	-
Fund based	Short Term	0.00	Sep 23, 2024	-	Sep 14, 2023	-	Oct 07, 2022	[ICRA]A3+	Sep 29, 2021	[ICRA]A3+
									Nov 08, 2021	[ICRA]A3+
Unallocated Limits	Long-term/Short-term	2.00	Sep 23, 2024	[ICRA]BBB (Stable)/[ICRA]A3+	Sep 14, 2023	[ICRA]BBB (Stable)/[ICRA]A3+	Oct 07, 2022	[ICRA]BBB (Stable)/[ICRA]A3+	Sep 29, 2021	[ICRA]BBB (Stable)/[ICRA]A3+
									Nov 08, 2021	[ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short-term – Fund based – Others	Very 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	Long-term – Fund-based – Cash Credit	NA	NA	NA	8.00	[ICRA]BBB (Stable)
NA	Short-term – Fund based – Others	NA	NA	NA	40.00	[ICRA]A3+
NA	Long-term/Short-term – Unallocated Limits	NA	NA	NA	2.00	[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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