

March 28, 2025

Malik Auto Zone Private Limited: [ICRA]BB- (Stable)/[ICRA]A4; assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Short-term fund based – Bank Facilities	68.90	[ICRA]A4; assigned
Long-term fund based – Cash Credit	4.90	[ICRA]BB- (Stable); assigned
Long-term/Short term – Unallocated Limits	6.20	[ICRA]BB-(Stable)/ [ICRA]A4; assigned
Total	80.00	

*Instrument details are provided in Annexure I

Rationale

The assigned ratings factor in Malik Auto Zone Private Ltd.'s (MAZPL) established position as a dealer of Kia India Private Limited's (Kia) passenger vehicles (PV) and extensive experience of its promoters in the dealership business. The company started operations in FY2021 as a sole authorised dealer of Kia for Warangal and Karimnagar districts of Telangana. The company expanded its operations to Hyderabad in January 2024 by taking over the operations of an existing dealership in Hyderabad in a slump sale for a total consideration of Rs. 26.2 crore, which was funded through the promoter and group company loans of Rs. 20.44 crore and internal accruals. This expansion is expected to result in a strong revenue growth of 53-54% in FY2025. In FY2024, the company's margins were affected by one-time expenses pertaining to the acquisition. However, MAZPL's operating margin is expected to recover to 2-2.5% in FY2025. The ratings are constrained by the company's moderate scale of operations, despite the strong growth in FY2025, and thin margins inherent in the auto-dealership business, which is characterised by intense competition. The ratings are further constrained by MAZPL's moderate financial profile, characterised by leveraged capital structure and modest debt coverage indicators.

The Stable outlook on the long-term rating reflects ICRA's opinion that MAZPL's revenues and earnings are expected to witness a steady growth, supported by increase in service income and new vehicle sales, leading to improvement in debt metrics.

Key rating drivers and their description

Credit strengths

Experience of promoter group in auto dealership business; authorised dealer of Kia Motors – MAZPL was incorporated in FY2021 as a sole authorised PV dealer of Kia for Karimnagar and Warangal districts of Telangana, and it subsequently expanded its operations to the Hyderabad market in January 2024. The company's promoters have extensive experience in the dealership business with interests in dealerships of multiple OEMs.

Credit challenges

Moderate scale of operations – The company's scale of operations is likely to be moderate, despite the expected strong revenue growth in FY2025. The company's revenues were dominated by new vehicle sales, which accounted for 90% of its revenues in FY2024, while spares, service and other income account for the rest of 10%. Expansion of operations to Hyderabad by adding two showrooms and two workshops is expected to support its revenue growth in FY2025.

Thin margins inherent to automobile dealership and modest debt metrics – MAZPL’s operating margins have been low on account of the dynamics of the dealership industry, wherein margins on vehicles, spares, services, and accessories are mainly controlled by the principal. Moreover, new vehicle sales, which command low margins, dominate the revenue mix, affecting the margins. The company incurred operating losses in FY2024 owing to one-time expenses incurred towards the slump sale transaction. While the company’s margins are expected to recover in FY2025, its earnings are likely to remain modest. The company had high inventory holding as of March 2024 owing to the purchase of sizeable inventory in January 2024. However, the same has corrected significantly by December 2024. Nevertheless, the company’s capital structure and coverage metrics are expected to remain stretched owing to low earnings, modest net worth and elevated debt levels.

Exposed to competition from other OEMs and dealers of the same OEM – The company faces competition from dealers of other OEMs and the same principal, resulting in increased pressure to pass on the price discounts to customers and constraining its margins. Its sales are concentrated in Telangana.

Liquidity position: Adequate

The company’s liquidity position is adequate. It maintains modest cash balance and has a low buffer in working capital limits (against the drawing power). However, sizeable liquidation of inventory is expected to result in healthy retained cash flows in FY2025, which are expected to remain positive in FY2026 as well, despite moderation. The company does not have any major capex plan and is expected to incur maintenance capex of less than Rs. 2.0 crore per annum in the near term. The company has repaid most of its long-term debt, apart from interest-free promoter loans, by December 2024. It is not expected to have any repayment obligation in FY2026.

Rating sensitivities

Positive factors – ICRA may upgrade MAZPL’s ratings if a healthy growth in revenues and earnings leads to a material improvement in its liquidity position and credit metrics. Specific credit metric that could lead to ratings upgrade includes an interest coverage of more than 2.0 times on a sustained basis.

Negative factors – Pressure on the company’s ratings could arise if any material decline in revenues or margins impacts its debt metrics or a stretch in the working capital cycle weakens its liquidity position.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Automobile Dealers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company

About the company

Malik Auto Zone Private Limited (MAZPL) is an authorised dealer of Kia Motors India Private Limited (Kia) PVs. It started operations in FY2021 by opening showrooms and workshop in Warangal and Karimnagar and is the sole authorised dealer of Kia in these regions. The company expanded its operations to Hyderabad in FY2024. As of December 2024, the company has four showrooms, three stock yards and four service centres in Telangana.

Key financial indicators (audited)

MAZPL	FY2023	FY2024
Operating income	174.2	195.2
PAT	1.4	-6.7
OPBDIT/OI	2.4%	-0.8%
PAT/OI	0.8%	-3.5%
Total outside liabilities/Tangible net worth (times)	9.4	-45.4
Total debt/OPBDIT (times)	4.8	-60.7
Interest coverage (times)	3.2	-0.5

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

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)	March 28, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Dealer Financing scheme	Short term	68.90	[ICRA]A4	-	-	-	-	-	-	-	-
Cash Credit	Long term	4.90	[ICRA]BB-(Stable)	-	-	-	-	-	-	-	-
Unallocated Limits	Long term/ Short term	6.20	[ICRA]BB-(Stable) / [ICRA]A4	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Short-term Fund-based – Bank Facilities	Simple
Long-term Fund-based – Cash Credit	Simple
Long-term/ Short-term – Unallocated Limits	NA

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	-	-	-	4.90	[ICRA]A4
NA	Short Term Fund Based-Dealer Financing Scheme	-	-	-	68.90	[ICRA]BB- (Stable)
NA	Unallocated	-	-	-	6.20	[ICRA]BB-(Stable)/ [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 – Not Applicable

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