

September 16, 2021

Malwa Automotives Pvt. Ltd.: [ICRA]B+ (Stable); rating reaffirmed; Rated Amount enhanced removed from issuer non-cooperation

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Limits	13.00	18.00	[ICRA]B+ (Stable); rating reaffirmed and removed from ISSUER NOT-COOPERATING category
Long-term Fund-based – Term Loan	4.00	-	-
Total	17.00	18.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating notes Malwa Automotive Pvt. Ltd.'s (MAPL) long track record as an authorised dealer of Jaguar Land Rover (JLR) and the extensive experience of the promoter family in the auto dealership business.

The rating is, however, constrained by the company's small scale of operations and modest capital structure, characterised by its low net worth position. The rating also factors in the weak debt coverage indicators and working capital-intensive nature of operations leading to a modest financial profile. Further, the rating notes the stiff competition in the dealership businesses, as well as the demand cyclicity of the automobile segment.

The Stable outlook indicates that MAPL is expected to benefit from the long track record of its promoters in the dealership business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the dealership business – MAPL is a part of the Malwa Group, which is promoted by the Sharma family. The promoter family have extensive experience of over three decades in the automobile dealership business. The promoter's established relationships with principal auto manufacturer and customers will continue to support its business risk profile.

Credit challenges

Working capital intensive nature of operations – The company's working capital intensity remains stretched as reflected by the NWC/OI of 77% and 54% in FY2021 and FY2020, respectively. The high working capital intensity is primarily due to the stock of high valued cars that the company needs to maintain at its showroom.

Leveraged capital structure – MAPL's financial risk profile remains weak characterised by high gearing, weak coverage indicators and low net worth position. On account of ad-hoc inventory funding facilities availed by the company towards the end of the fiscal, the gearing and total debt/OPBIDTA stood at 15.30 times and 7.03 times, respectively, as per the provisional balance sheet for FY2021. Its interest coverage and DSCR also remained thin at 1.15 times and 0.99 times in FY2021.

Vulnerable to inherent cyclicality in automobile industry and increasing competition from dealers of other OEMs – The company remains vulnerable to cyclical downturns in the automobile industry. Further, the automotive dealership industry is highly fragmented with intense competition among the dealerships of the competing OEMs. MAPL, given its modest scale of operations, faces competition from the unorganised used car market, and from dealers of other leading auto manufacturers in the luxury passenger car segment.

Liquidity position: Stretched

MAPL’s liquidity profile remains **stretched**, given the high utilisation of working capital limits. The average utilisation stood at 99% during the last 12 months ending in August 2021. However, absence of any major capex plans and limited debt repayment obligation provide comfort.

Rating sensitivities

Positive factors – ICRA could upgrade MAPL’s rating if there is a healthy and sustained growth in its overall scale of operations and profitability, leading to strengthened net worth position. Concurrently, the company’s ability to lower its reliance on external borrowings and maintain interest coverage above 2.0 times, on a consistent basis, shall trigger a rating upgrade.

Negative factors – Negative pressure on MAPL’s rating could arise due to notable decline in revenues and/or profitability, or deterioration in working capital cycle impacting its liquidity and overall financial profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealership
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of the entity

About the company

Incorporated in 2012, MAPL operates as a Jaguar and Land Rovers dealership through its 3S (Sales of Vehicles, Spare Parts and Services) showroom facility based in Karnal (Haryana).

It is promoted by Mr. Chander Mohan Sharma and Mr. Bal Krishan Sharma, who have been associated with the company since its inception and have more than three decades of experience in the dealership business.

Key financial indicators (audited/provisional)

MAPL Standalone	FY2020 (A)	FY2021 (P)
Operating Income (Rs. crore)	46.67	34.69
PAT (Rs. crore)	0.08	0.13
OPBDIT/OI (%)	9.99%	12.80%
PAT/OI (%)	0.2%	0.4%
Total Outside Liabilities [^] /Tangible Net Worth (times)	17.90	16.50
Total Debt/OPBDIT (times)	6.49	7.03
Interest Coverage (times)	1.15	1.15

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
India Ratings & Research	IND BB-/ Ind A4+ (ISSUER NOT COOPERATING)	April 06, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
						Sep 16, 2021	Mar 23, 2021	Dec 24, 2019
1	Working Capital Limits	Long-term	18.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING
2.	Term Loan	Long-term	-	-	-	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING	[ICRA]B+ (Stable); ISSUER NOT-COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital Limits	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	NA	-	18.00	[ICRA]B+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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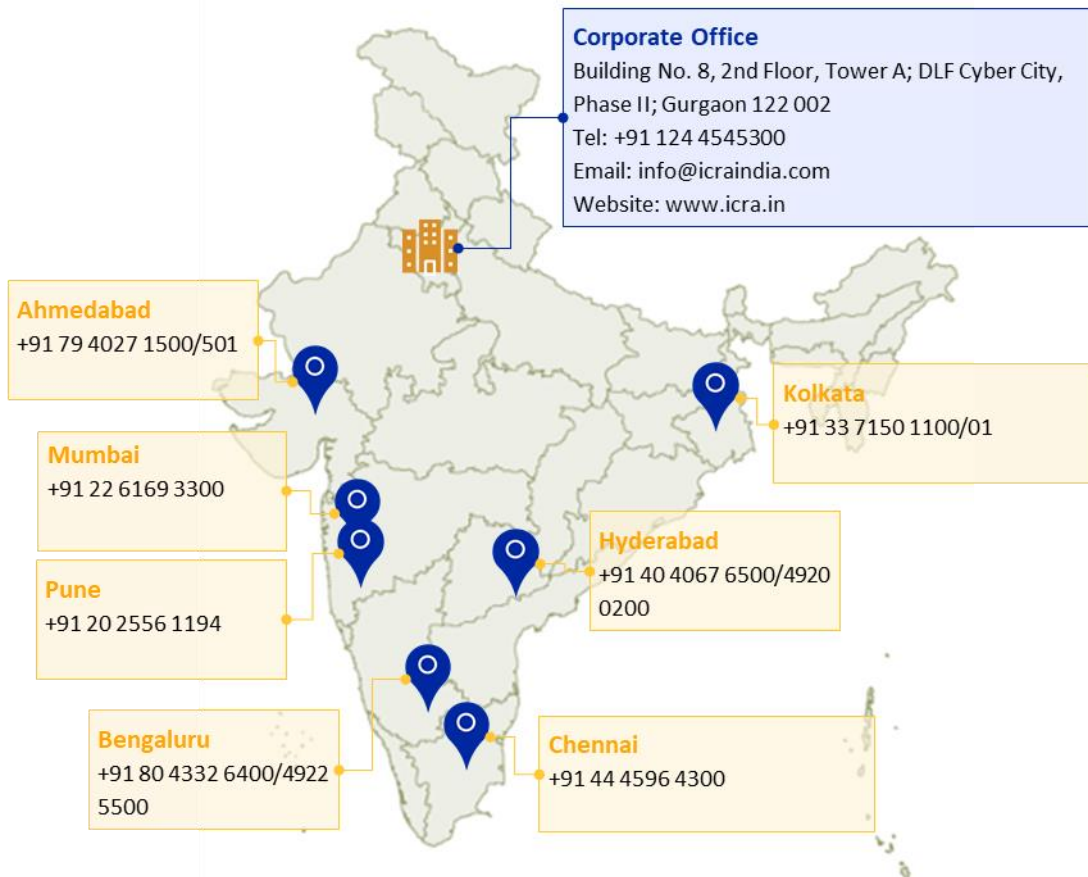
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