

August 22, 2022

Commercial Automobiles Private Limited: ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – TL	25.59	25.59	[ICRA]B+(Stable); reaffirmed
Long Term – Fund Based – CC	5.00	5.00	[ICRA]B+(Stable); reaffirmed
Short Term – Fund Based - CC	30.71	30.71	[ICRA]A4; reaffirmed
Long Term – Unallocated	11.53	11.53	[ICRA]B+(Stable); reaffirmed
Total	72.83	72.83	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider the modest operating and financial performance of Commercial Automobiles Private Limited (CAPL) in FY2022, albeit with significant growth from the levels of FY2021 which was severely affected due to the Covid induced slowdown in demand. CAPL's performance is likely to remain stable in FY2023 with improved consumer sentiment and growth in economic activity although moderated by inflationary pressure.

The ratings remain constrained by the company's weak financial risk profile, characterised by its highly leveraged capital structure and weak debt coverage indicators. The margins in the dealership business remain low due to limited bargaining power with original equipment manufacturers (OEMs) although the rental income will likely continue providing support to profit margins in the medium term. The ratings further continue to take into consideration the inherent cyclicity in the CV dealership business and the fact that the company generates most of its revenues from this segment; the balance comes from the passenger vehicles (PV) segment.

The ratings also consider CAPL's position as one of the largest dealers of Tata Motors Limited (TML) in eastern Madhya Pradesh, with presence in multiple districts of the state. The ratings also factor in the established relationship of CAPL with TML, given the dealership of more than five decades vintage.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that CAPL's operational and financial profile are likely to remain stable in the medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in auto-dealership business – The company has a track record of more than five decades in the auto-dealership business. The key promoter, Mr. Kailash Chand Gupta, has been involved in dealership business since 1971.

Healthy revenue growth in both Commercial Vehicles (CV) and Passenger Vehicles (PV) led by demand revival across segment and good performance of Tata Motors Limited (TML) – CAPL posted revenue of Rs. 269.66 crore in FY2022 registering a robust growth of 136% from the revenue of Rs. 114.22 crore in FY2021. The healthy growth has been fuelled by higher volumes of both CV and PV as consumer sentiment improved significantly with gradual withdrawal of Covid wave. The incremental revenue is in consonance with the robust demand of TML vehicles in the domestic market.

Increasing rental income likely to support low-margin auto dealership business – CAPL has been earning substantial rental income from its commercial property. CAPL has earned ~Rs. 3.15 crore rental income in FY2022, which is supporting the low-margin dealership business.

Credit challenges

Thin margins in auto dealership business – The dealership business is characterised by thin margins and low bargaining power of the dealers as margins on vehicles are determined by OEMs.

Weak financial risk profile characterised by high gearing and modest coverage indicators, though improvement since FY2022

- The financial risk profile of the company continues to remain weak with gearing of 2.88 times and interest coverage of 1.33 times in FY2022 (provisional) albeit showing modest improvement from gearing and interest coverage of 3.26 times and 1.03 times respectively in FY2021. Furthermore, CAPL's working capital limits remain highly utilised, indicating its stretched liquidity profile. Going forward, the financial risk profile of the company is expected to remain under pressure due to the inherent nature of operations.

Increasing competition from other TML PV dealerships in the region – CAPL is facing strong competition from the existing dealers of TML PV in its catchment area, notwithstanding the overall strong demand for TML hatchbacks and UVs (utility vehicles) in the market.

Liquidity position: Stretched

CAPL's liquidity position is stretched due to limited cushion in cash credit limit and high repayment liabilities. The company has been utilising more than 90% of its sanctioned working capital limit. CAPL also has substantial repayment liabilities of more than Rs. 5 crore annually. The cash accruals from the business are likely to be insufficient for the term loan repayment. Hence, the promoters are expected to infuse funds into the business as and when required.

Rating sensitivities

Positive factors – ICRA could revise the ratings upwards in case there is a sustained improvement in revenues and profitability. Specific credit metric that could lead to a rating upgrade is DSCR more than 1.1 on a sustained basis.

Negative factors – ICRA could downgrade the ratings in case there is a further weakening of credit metrics and coverage indicators of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 1971 as a partnership firm and subsequently converted into a private limited company in 1997, CAPL is an authorised dealer of TML for its CVs and PVs. The CV dealership operates in eastern Madhya Pradesh, across Jabalpur and the adjoining districts, which are serviced by its five sales-spares-service (3S) outlets and eight sales (1S) outlets. The company sells PVs in eight districts of Madhya Pradesh that are serviced by 3S outlets at Waidhan and Shahdol, along with 1S outlets in the remaining districts. CAPL is a closely held company, with the promoter, Mr. Kailash Chand Gupta, holding an equity stake of 38.5%. The remaining shares have been distributed among his family and other companies in the Group.

Key financial indicators (audited)

CAPL Standalone	FY2021	FY2022
Operating Income (Rs. crore)	114.22	269.66
PAT (Rs. crore)	0.34	4.95
OPBDITA/OI (%)	5.45%	3.26%
PAT/OI (%)	0.30%	1.84%
Total Outside Liabilities/Tangible Net Worth (times)	3.69	3.33
Total Debt/OPBDITA (times)	15.42	11.26
Interest Coverage (times)	1.03	1.33

PAT: Profit after Tax; OPBDITA: 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

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					22-Aug-22			
1	Cash Credit	Long-term	5.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Negative)	[ICRA]BB (Negative)
2	Term Loans	Long-term	25.59	22.22	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Negative)	[ICRA]BB (Negative)
3	e-DFS limits	Short-term	30.71	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+
4	Unallocated	Long-term	11.53	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Negative)	-

Source: Company; *As on March 31, 2022 (provisional)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – TL	Simple
Long Term – Fund Based – CC	Simple

Short Term – Fund Based – CC*	Simple
Long Term – Unallocated	NA

**e-DFS limits*

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: www.icra.in

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	NA	5.00	[ICRA]B+ (Stable)
NA	Term Loan I	FY2021	NA	FY2031	15.59	[ICRA]B+ (Stable)
NA	Term Loan II	FY2021	NA	FY2026	10.00	[ICRA]B+ (Stable)
NA	e-DFS*	-	NA	NA	30.71	[ICRA]A4
NA	Unallocated	-	NA	NA	11.53	[ICRA]B+ (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 - NA

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