June 26, 2023

Pillai and Sons Motor Company: 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	7.00	7.00	[ICRA] BBB (Stable); reaffirmed
Long-term/ Short-term – Fund based	66.00	57.20	[ICRA] BBB (Stable)/[ICRA]A3+; reaffirmed
Long-term – Term Loan	6.51	6.77	[ICRA] BBB (Stable); reaffirmed/assigned for enhanced limits
Long-term – Proposed Term Loan	-	20.00	[ICRA] BBB (Stable) assigned
Short-term – Non-fund Based	-	1.00	[ICRA] A3+ assigned
Long-term – Unallocated	0.49	8.03	[ICRA] BBB (Stable); reaffirmed/assigned for enhanced limits
Total	**80.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the bank lines of Pillai & Sons Motor Company (PSMC) favourably considers the expectation that its credit profile will remain stable supported by stable demand for passenger vehicles, its established position as an authorised Maruti Suzuki India Limited (MSIL) passenger car dealer in Tamil Nadu and the vast experience of its partners in the industry. The ratings positively factor in MSIL's market leadership position in the domestic passenger vehicles (PVs) segment, which augurs well for the firm's growth prospects. PSMC's financial profile characterised by improving revenues and earnings, healthy capital structure, and comfortable debt protection metrics, continue to provide comfort.

The ratings, however, remain constrained by low margins, inherent to the automobile dealership business, as vehicle sales that drive a significant part of revenues. Besides, the competition faced by the company from other MSIL dealers as well as dealers of other OEMs exerts pressure on its sales and profit margins. The firm's scale of operations is moderate, with revenues of Rs. 394.3 crore in FY2023. Nevertheless, supply constraints emanating from semiconductor shortages impacted the firm's growth during the year. However, with healthy demand and improving supply, the firm is expected to witness a double-digit revenue growth in FY2024. The ratings also consider the risks emanating from the partnership nature of the firm, namely capital withdrawal risks.

The Stable outlook on the long-term rating reflects ICRA's belief that the firm will witness revenue growth in the near term, supporting growth in earnings. In addition, the same will continue to maintain its comfortable financial profile.

Key rating drivers and their description

Credit strengths

Extensive track record of PSMC in automobile dealership business – PSMC has been an authorised dealer of MSIL's PVs for the Tamil Nadu region since 1997. The platinum dealer rating assigned by MSIL reflects PSMC's strong sales and service performance. It is among the largest authorised dealers for MSIL in the Tamil Nadu region with a sales and service network spread across six districts. Expansion of showrooms and workshops in Chennai and other cities is likely to aid in sustaining its market share in the state over the next few years.

Experienced partners and strong market position – PSMC's partners have extensive experience of over two decades in the business and the company has strong credentials, as one of the large dealers of MSIL's PVs in Tamil Nadu. The partners are further supported by an experienced management team.

Dominant market position of MSIL in domestic PV segment – MSIL has sustained its leadership position in the Indian domestic PV segment, with its market share improving over the years, driven by the success of its new models and the healthy performance of existing models. MSIL's models like Wagon R, Swift, Baleno, Swift Dzire and Nexon were among the best-selling models in the country during FY2023 and FY2022.

Stable financial profile – The financial risk profile remains stable, albeit marginal moderation in FY2023, characterised by the gearing ratio of 1.1x, Total Debt/OPBDITA of 2.1x, interest coverage of 5.0x and Total Outside Liabilities/Total Networth of 1.5x in FY2023 on account of increased working capital debt to support the revenue growth. The firm's total debt has also reduced from Rs. 43.7 crore as on March 31, 2019, to Rs. 34.7 crore as on March 31, 2023 (provisional).

Credit challenges

Thin profitability, low bargaining power and pricing constraints – PSMC's profit margins have historically been thin, given the nature of the dealership business where the commission is decided by the principal. PSMC also faces revenue concentration as its entire revenues are solely dependent on a single principal, MSIL. However, the revenues derived from higher-margin segments including workshop income, sale of spares and accessories support profitability to an extent. Revenues from spares and accessories improved to Rs. 38.9 crore in FY2023 from Rs. 36.8 crore in FY2022. However, its overall contribution to operating income declined marginally.

Intense competition – The automotive dealership industry is highly competitive with stiff competition from other dealerships. Intense competition from the dealers of other OEMs also exerts pressure on PSMC'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.

Inherent risks from partnership nature of entity – ICRA notes that PSMC is a partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm's net worth and liquidity position.

Liquidity position: Adequate

The liquidity position is adequate, supported by expected retained cash flows of Rs. 8.0–10.0 crore, cash and bank balances of Rs. 2.5 crore as on March 31, 2023, and Rs. 11.6 core of cushion available in working capital limits against the annual repayment obligation of ~Rs. 2.4 crore in the next 12 months. The company is also expected to incur nominal maintenance capex of ~Rs. 3.0–5.0 crore per annum in the near-term.

Rating sensitivities

Positive factors – The rating could be upgraded if the company achieves material growth in revenues and profits leading to healthy debt protection metrics.

Negative factors – Pressure on the ratings could arise if significant decline in revenues or earnings or stretch in the working capital cycle impacts the company's liquidity position or debt protection metrics. Specific credit metrics, which could lead to a rating downgrade include interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of PSMC.

Note (for analyst reference only):

About the company

Established in 1997 as a partnership firm in Thanjavur, Pillai & Sons Motor Company is an authorised Maruti Suzuki India Limited passenger car dealer. The firm's operations, however, started from Kumbakonam (Tamil Nadu) in the early 1950s as a chemical factory manufacturing friction dust used in drum linings. The firm later ventured into the sales of Vespa Motorcycles in 1983 and soon after strategically shifted to MSIL. It is a family-owned business. The company has presence across 17 locations in Tamil Nadu, with more than 32 points of sale.

Key financial indicators (audited)

PSMC Standalone	FY2021	FY2022	FY2023*
Operating income	284.1	322.9	394.3
PAT	4.9	7.5	8.5
OPBDIT/OI	4.1%	4.6%	4.2%
PAT/OI	1.7%	2.3%	2.2%
Total outside liabilities/Tangible net worth (times)	1.4	1.2	1.5
Total debt/OPBDIT (times)	1.7	1.6	2.1
Interest coverage (times)	3.5	5.5	5.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore. *Provisional numbers.*

Status of non-cooperation with previous CRA: CRISIL, in its rationale published on Pillai and Sons Motor Company on May 17, 2023, revised the ratings to CRISIL B/Stable and migrated to 'Issuer Not Cooperating' category based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun 26, 2023	Aug 08, 2022	-	-
1	CC	Long-term - Fund based	7.00	-	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	-	-
2	Working Capital	Long-term / Short-term - Fund based	57.20	-	[ICRA] BBB (Stable) / [ICRA] A3+	[ICRA] BBB (Stable) / [ICRA] A3+	-	-
3	Term Loan	Long-term	6.77	6.77	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	-	-
4	Proposed Term Loan	Long-term	20.00	-	[ICRA] BBB (Stable)	-		
5	Bank Guarantee	Short-term	1.00	-	[ICRA] A3+	-		
6	Unallocated	Long-term	8.03	-	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based	Simple
Long-term/ Short-term – Fund-based	Simple
Long term – Term Loan	Simple
Long-term – Proposed term loan	Simple
Short-term – Bank Guarantee	Very 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	Fund based - CC	NA	NA	NA	7.00	[ICRA] BBB (Stable)
NA	Fund Based – working capital	NA	NA	NA	57.20	[ICRA] BBB (Stable)/ [ICRA] A3+
NA	Term Loan	FY2021	NA	FY2027	6.77	[ICRA] BBB (Stable)
NA	Proposed term loan	NA	NA	NA	20.00	[ICRA] BBB (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA] A3+
NA	Unallocated	NA	NA	NA	8.03	[ICRA] BBB (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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