December 07, 2023

Jubilant Motorworks 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 limits (Cash Credit/ Overdraft limits)	61.20	104.50	[ICRA]A-(Stable); reaffirmed and assigned for enhanced amount
Short-term fund-based limits (Inventory funding)	277.50	398.10	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Short-term non-fund-based limits (Bank Guarantee)	19.50	38.50	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Short-term unallocated limits	6.00	0.00	-
Total	**364.20**	**541.10**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Jubilant Motorworks Private Limited (JMPL) and its two subsidiaries, i.e., Jubilant Performance Cars Private Limited (JPCPL) and Jubilant Auto Technologies Private Limited (JATPL), while assigning the above credit ratings (together referred to as 'JMPL' or the company), given the common management team and significant operational and financial linkages between the entities.

The rating reaffirmation reflects ICRA's opinion that JMPL will maintain its established presence in the automobile dealership industry given its association with reputed principals like Audi and MG Motor (MG) in the passenger vehicle (PV) segment. JMPL is the largest authorised dealer for Audi in India with a network of seven showrooms (two exclusively for used Audi cars), nine body shops/service centres and four warehouses across Bangalore, Mangalore, Mumbai, Chennai, Pune, Nashik, and Goa. JMPL entered into an exclusive agreement for the distribution of MG cars in Karnataka in 2019 and currently has 10 showrooms and seven workshops/service centre across Bangalore, Mangalore and Tumkur. The company has witnessed a healthy volume growth of ~52% and ~35% for Audi and MG, respectively, in FY2023 vis-à-vis FY2022 which is further continuing in the current fiscal. Consequently, JMPL shares meaningful market shares for both original equipment manufacturers (OEMs).

In 2020, JMPL, vide its wholly-owned subsidiary, JPCPL, entered the used-car sales business under its in-house brand, "The Cars Collective (TCC)". JMPL has also forayed into the electric vehicle (EV) business through dealerships of Ather (electric two-wheelers or e-2Ws) and Altigreen (electric three-wheelers or e-3Ws). However, the Altigreen business is in the process of being wound up.

The ratings also favourably factor in the company's strong parentage, with its entire shareholding held by the Jubilant Bhartia Group (JBG/the Group) and the Group's demonstrated track record of extending timely financial support to the company.

Till March 28, 2022, JMPL was a 100% subsidiary of Jubilant Consumers Private Limited (JCPL); rated [ICRA]A+(Stable). However, JCPL has since sold off its stake in the business to its promoters, the Bhartia family-owned trusts. Nonetheless, given the continuation of financial support (primarily corporate guarantees extended by JCPL to JMPL for all the latter's working capital facilities as well as ICDs in the past) and JMPL's strategic importance, ICRA expects JCPL to continue to extend financial support to JMPL.

The ratings, however, are constrained by the company's low profit margins owing to the dealership nature of the business, which is further impacted by operating losses in the used cars vertical and the intense competition from various other dealerships of other OEMs. Moreover, with moderate working capital intensive nature of operations, the company remains dependent on working capital debt and has a weak capital structure and modest debt coverage indicators. In FY2023, high stock levels in March 2023 resulted in higher than anticipated debt levels and ICRA expects the same to normalise, going forward. The ratings are also constrained further by the regional concentration of the company's revenues, primarily from Karnataka. ICRA, however, notes that the company is looking at expanding operations to more states in the near-to-medium-term, which would lend some diversity.

The Stable outlook on the long-term rating reflects ICRA's opinion that JMPL will maintain its business profile benefiting from the performance of its key OEMs and will also continue to enjoy benefits from its status as a JBG company and the continued support from the promoters.

Key rating drivers and their description

Credit strengths

Part of JBG with demonstrated track record of receiving financial support – As part of the JBG, which has extensive presence across diverse industries, JMPL benefits from the rich experience of its promoters and management. The Group has been providing financial support to JMPL in terms of equity infusion and inter-corporate loans (ICLs). As on March 31, 2023, outstanding ICLs from JCPL stood at Rs. 43.6 crore to partly support JMPL's funding requirements. JCPL has also extended corporate guarantees for the entire amount of working capital facilities availed by JMPL and its subsidiaries. ICRA expects need-based support from JCPL and/or JBG to continue for JMPL, supporting its credit profile. Further, being part of JBG also lends JMPL with the strong financial flexibility to negotiate favourable terms with lenders.

Established market position with significant share of OEM business – The Group entered the auto dealership business in 2006 (under Jubilant Enpro Private Limited).Over the past decade, it has established a strong market position in the industry with exclusive dealerships for Audi and MG in several southern and western Indian markets. The company's business profile is also augmented by its longstanding relationship with Audi. Moreover, the company has been witnessing healthy volume growth for both its key principals. The company has witnessed a healthy volume growth of ~52% and ~35% for Audi and MG, respectively, in FY2023 vis-à-vis FY2022, which is further continuing in the current fiscal. Consequently, JMPL shares meaningful market shares for both OEMs. In H1 FY2024, JMPL has sold 1,043 units of Audi and 2,635 units of MG vehicles.

Credit challenges

Modest financial risk profile reflected by thin margins and dependence on debt – Given the nature of the dealership business, the commission on vehicle sales, spares, and service, etc. are decided by the principal, which results in thin profit margins. The company ventured into the used car business in 2020, which was loss making till FY2023 given the competitive pressures. The company had a total debt of ~Rs. 508 crore as on March 31, 2023 (of which the external debt stood at ~Rs. 352 crore), primarily to fund the inventory, which was inflated owing to the implementation of the BS VI Phase II norms from April 01, 2023. The high debt has kept JMPL's capital structure highly leveraged. Further, its debt protection metrics are modest with Debt/OPBDITA of 8.67 times in FY2023 (PY: 8.58 times) and interest cover of 1.7 times for FY2023 (PY: 1.3 times). ICRA expects the working capital requirements to normalise, going forward, led by lower inventory holding days. Ramp up in the scale of operations, led by new product launches are likely to support the company's financial profile. Further, access to need-based funding support from JBG provides comfort.

Intense competition and regional concentration of sales – JMPL is exposed to intense competition from dealerships of other luxury car brands, especially from Mercedes and BMW, which may continue to impact its revenues and profitability. In the MG business as well, competition exists from various other brands. The used-car business too faces competition from organised and unorganised players. Moreover, JMPL's sales are regionally concentrated with most of its revenues coming from Karnataka. However, the company's Audi dealerships are present in Mumbai, Goa and Nashik (Maharashtra), which reduces the geographical concentration risk of its revenues to some extent. It is also planning to expand operations to other states and add another OEM, which will add to the diversity of its revenue streams.

Liquidity position: Adequate

JMPL's liquidity position is expected to remain adequate. The company has sanctioned inventory funding lines of ~Rs. 420 crore with average month-end utilisation being moderate at 73% for the 12-month period ended in September 2023. The company also has sanctioned CC limits of Rs. 96.5 crore, which it utilises against receivables and other stock, the average month-end utilisation of which was 64% for the 12-month period ended in September 2023. The company has been receiving enhancements in line with its growth requirements, which is also backed by corporate guarantees from JCPL. The company has a capex plan of Rs. 40-45 crore over the next 12 months for which it will avail ~Rs. 30 crore term loans. The projected cash flow from operations and available working capital lines are expected to be adequate to meet the business requirements over the next 12-months, against a backdrop of a normalising working capital cycle. Furthermore, financial flexibility, emanating from the backing of the group, primarily through JCPL, provides cushion in case of any adverse conditions or downturns in the business.

Rating sensitivities

Positive factors – ICRA could upgrade JMPL's rating if, inter alia, there is a healthy improvement in its scale and profitability of its operations or reduction in its debt levels, supporting improvement in its credit metrics on a sustained basis. Furthermore, improvement in the credit profile of JCPL (support provider) would also support a positive rating action.

Negative factors – Negative pressure on the ratings would arise in case of a significant decline in its scale of operations and profitability and/or deterioration in its working capital cycle, which adversely impacts the company's financial metrics and liquidity profile and/or a sustained deterioration in the credit profile of the support provider, JCPL, or weakening of linkages with JCPL. A specific credit metric that could lead to a downward revision in ratings would be if JMPL's interest cover is lower than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Dealership
Parent/Group support	JMPL is a JBG company. The rating assigned to JMPL factors in the high likelihood of its group company, JCPL, extending financial support because of its strategic importance (corporate guarantee extended by JCPL for the entire external debt of JMPL). ICRA also expects JCPL/JBG to be willing to extend financial support to JMPL out of their need to protect their reputation from the consequences of a Group entity's distress. There is also a history of JCPL extending timely financial support to the company, whenever a need has arisen.
Consolidation/Standalone	ICRA has taken a consolidated view of JMPL and its two subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities. For arriving at the ratings, ICRA has considered the consolidated financials of JMPL. As on October 31, 2023, the company had two subsidiaries, which are all enlisted in Annexure II.

About the company

Jubilant Motorworks Private Limited, incorporated in 2009, is the automobile dealership vertical of the Jubilant Bhartia Group. The entity took over the operations of Jubilant Enpro, which was till then, an importer of Audi cars into India. The company, together with its two wholly-owned subsidiaries, JPCPL and JATPL, is referred to as the Jubilant Motorworks Group.

The Group has a sizeable presence in South and West India. It entered the Audi dealership in 2009 from Bangalore. Thereafter, it opened/acquired Audi showrooms in Chennai, Mangalore, Pune, Mumbai, Nashik and Goa between 2009 and 2021 from external parties. The Group also opened MG dealerships in Bangalore and Mangalore in 2019 and 2020, respectively. JMPL also operates a dealership of Ather (e-2Ws) in Karnataka and Maharashtra and Altigreen (e-3Ws) in Maharashtra and Gujarat. However, the Altigreen business is being wound up due to underperformance. The company is looking at adding more OEMs in the PV segment in the near-to-medium-term. It also started its own multi-brand, used cars business, "The Cars Collective", under JPCPL. The Group started its software development vertical under JATPL in 2021 mainly to serve dealership management requirements.

In FY2022, following a restructuring exercise, the shareholding of JMPL (earlier held by JCPL) was directly held by the Shyam Sunder Bhartia Family Trust and Hari Shankar Bhartia Family Trust. Nonetheless, JCPL continues to extend corporate guarantee to support JMPL and its subsidiaries. It has also extended ICDs and OCDs to JMPL.

Key financial indicators (audited)

JMPL (Consolidated)	FY2022	FY2023
Operating income	1021.5	1544.4
PAT	-6.7	14.1
OPBDITA/OI	3.4%	3.8%
PAT/OI	-0.7%	0.9%
Total outside liabilities/Tangible net worth (times)	22.9	14.7
Total debt/OPBDITA (times)	8.6	8.7
Interest coverage (times)	1.3	1.7

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; All calculations are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Dec 07, 2023	Sep 26, 2022	Sep 8, 2022	-	-
1	Cash credit/ Overdraft limits	Long term	104.50	--	[ICRA]A- (Stable)	[ICRA]A-(Stable)	[ICRA]A- (Stable)	-	-
2	Overdraft limits	Short term	-	--	-	-	[ICRA]A2+	-	-
3	Inventory funding lines	Short term	398.10	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
4	Bank Guarantees	Short term	38.50	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
5	Unallocated limits	Short term	0.00	--	-	[ICRA]A2+	[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits (Cash Credit/ Overdraft Facility)	Simple
Short-term fund-based limits (Inventory funding)	Very Simple
Short-term non-fund-based limits (BG)	Very Simple
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 Limits (Cash Credit/ Overdraft Limits)**	-	-	-	104.50	[ICRA]A-(Stable)
NA	**Short-term fund-based limits (Inventory funding)**	-	-	-	398.10	[ICRA]A2+
NA	**Short-term Non-fund-based limits (BG)**	-	-	-	38.50	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jubilant Motorworks Private Limited	100.00% (rated entity)	Full Consolidation
Jubilant Performance Cars Private Limited	100.00%	Full Consolidation
Jubilant Auto Technologies Private Limited	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

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