

June 21, 2024

## Bimal Auto Agency India Pvt Ltd: Rating reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Overdraft	12.00	15.00	[ICRA]BBB+, reaffirmed; outlook revised to stable from positive.
Long-term – Unallocated	12.00	9.00	[ICRA]BBB+, reaffirmed; outlook revised to stable from positive.
<b>Total</b>	<b>24.00</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Stable from Positive on the long-term rating of Bimal Auto Agency India Pvt Ltd. (BAAIPL) considers the lower-than-anticipated earnings, along with increased debt, leading to moderation in credit metrics of the company. BAAIPL recorded a healthy revenue growth of 17.3%, supported by expansion of operations to Kozhikode, Kerala and healthy demand in the Bengaluru market. However, the company's operating margin moderated to 2.8% in FY2024 (provisional) from 3.2% in FY2023 on account of an increase in employee costs (due to high attrition and increased hiring of sales personnel to boost sales) and high discounts on vehicles, in line with the industry.

BAAIPL is expected to record a mid-to-high single digit revenue growth in FY2025, supported by further expansion into the Kerala and rural Karnataka market, new launches by its principal, Maruti Suzuki India Limited (MSIL). Further, the margins are expected to improve gradually in the near term aided by moderation in employee expenses with right sizing of employees, resulting in improved debt protection metrics as indicated by expected improvement in interest cover to over 4.0 times and debt service cover to over 3.0 times. The rating also takes comfort from the company's proven operational track record as an authorised dealer of MSIL and its strong market position in Bengaluru. The rating positively factors in the leadership position of MSIL in the domestic passenger vehicles (PV) segment.

The rating strengths are partially offset by thin margins, inherent to the automobile dealership business, as vehicle sales, which generate a significant share of revenues, command thin margins. Besides, the competition faced by the company from other MSIL dealers as well as dealers of other original equipment manufacturers (OEMs) exerts pressure on its sales and profit margin. Further, the company has a relatively higher geographic concentration in Bengaluru, exposing its performance to region-specific event risks. ICRA notes that geographic concentration is expected to improve to an extent, with the ramp-up of operations in Kerala.

### Key rating drivers and their description

#### Credit strengths

**Long track record of BAAIPL in automobile dealership business** - BAAIPL has been the authorised dealer of MSIL's PVs for Bengaluru since 2002. The 'Platinum' dealer rating awarded to BAAIPL over 15 times by MSIL, reflects the company's strong sales and service performance and its established track record of dealership operations. It is among the largest authorised dealers for MSIL in Karnataka, with a sales and service network spread across Bengaluru and surrounding rural areas.

In FY2023, the company expanded its operations to Kozhikode, Kerala, by opening an Arena showroom, along with a workshop, True Value, accessories outlet and a Maruti Suzuki Driving School. The company plans to open workshops and two new showrooms in Kozhikode and rural Karnataka in FY2025. Expanding showrooms and workshops in Bengaluru and other cities in Karnataka and Kerala is likely to help sustain its market share over the next few years.

**Experienced promoters and strong market position** – BAAIPL's promoters have extensive experience of over five decades in the business and the company has strong credentials, as one of the large dealers of MSIL's passenger vehicles in Bengaluru. The promoters 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, driven by the success of its new models and the healthy performance of existing models. The market share improved marginally to ~42% in FY2024 from ~41% in FY2023. MSIL's models like Baleno, Vitara Brezza, Ertiga, Wagon R, Swift and Swift Dzire were among the best-selling models in the country in the last couple of fiscals.

**Comfortable financial profile** - BAAIPL witnessed a healthy revenue growth of 17.3% in FY2024 due to a 21.9% growth in volumes, given the healthy demand and expansion of operations in Kerala. It is expected to record mid-to-high single digit revenue growth in FY2025, supported by further expansion into the Kerala and rural Karnataka market and healthy demand supported by new launches by MSIL. While the company's coverage and capitalisation metrics moderated to some extent in FY2024 owing to increased working capital borrowings and contraction in margins, debt metrics are expected improve, going forward, as indicated by the expected improvement in interest cover to over 4.0 times in FY2025 due to improvement in margins and accretion to net worth.

### Credit challenges

**Thin profitability, low bargaining power and pricing constraints** – BAAIPL's profit margins have historically been thin, given the nature of the dealership business where the commission is decided by the principal. BAAIPL also faces revenue concentration as its entire revenues are solely dependent on a single principal, MSIL. Its margins moderated in FY2024 to 2.8% from 3.2% in FY2023 on account of an increase in discounts provided and higher employee expenses. The revenues from spare and accessories, which command higher margins, are expected to increase going forward, owing to the significant uptick in volumes witnessed in the previous financial year, which is expected to aid margins.

**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 BAAIPL'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. Further, the company has a relatively higher geographic concentration in Karnataka, exposing the company's performance to region-specific event risks, however, it is expected to improve to an extent as BAAIPL's Kerala operations ramp up.

### Liquidity position: Adequate

BAAIPL's liquidity is expected to remain adequate, with cash and bank balances of Rs. 2.0 crore and buffer in working capital limits of ~Rs. 14.6 crore as on March 31, 2024. Moreover, the expected retained cash flows of ~Rs. 13.0-15.0 crore against the annual repayment obligation of ~Rs. 0.9 crore provide comfort. Capex requirements of Rs. 15-18 crore in the next 12 months are expected to be partly funded through debt.

### Rating sensitivities

**Positive factors** - The rating could be upgraded if the company demonstrates a healthy improvement in its sales volume and revenues, while improving its profitability, debt metrics and liquidity on a sustained basis.

**Negative factors** - The rating could be downgraded if there is a material decline in operating revenues, a decline in earnings, or a stretch in the working capital cycle, resulting in a weakening liquidity position or debt protection metrics. Specific credit metrics which could lead to a rating downgrade include a decline in interest coverage to less than 4.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Automobile Dealerships</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating are based on the company's standalone financial profile

## About the company

Established in 2002 as a partnership firm in Bengaluru, Bimal Auto Agency is an authorised Maruti Suzuki India Limited (MSIL) passenger car dealer. In 2011, its constitution was changed to a private limited company. Its operations, however, started from Guwahati (Assam) in 1970. In 1984, it was appointed as a Maruti dealer in Guwahati – one of the initial lot of dealerships awarded by Maruti. In 2002, it started the dealership operations in Bengaluru. It is a family-owned business with its Director, Mr. Naveen Kumar Sarawgi as the Chief Executive Officer. The company has a presence across 30 locations in and around Bengaluru and rural Karnataka and 5 locations in Calicut, Kerala, including Arena & Nexa showrooms, true-value outlets, accessories outlets, Arena workshops, body shops and Nexa workshops. Besides, it operates 11 driving schools in Bengaluru and Calicut.

## Key financial indicators (audited)

HITES	FY2023	FY2024*
Operating income	987.9	1,159.0
PAT	18.6	15.6
OPBDIT/OI	3.2%	2.8%
PAT/OI	1.9%	1.3%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	2.2	2.8
Interest coverage (times)	6.8	3.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \*Provisional financials; Ratios are calculated as per ICRA's standards.

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2024 (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				June 21, 2024	28-Aug-23	30-Jun-22	28-Apr-21
1 Overdraft	Long-term	15.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2 Unallocated	Long-term	9.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund-based – Overdraft	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	-	NA	-	15.00	[ICRA]BBB+(Stable)
NA	Unallocated	-	NA	-	9.00	[ICRA]BBB+(Stable)

*Source: Company*

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 12 4454 5300

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**

+91 44 4596 4318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Nithya Debbadi**

+91 40 4547 4829

[nithya.Debbadi@icraindia.com](mailto:nithya.Debbadi@icraindia.com)

**Nikhil Parakh**

+91 44 4596 4321

[nikhil.parakh@icraindia.com](mailto:nikhil.parakh@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



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