

June 21, 2024

## Sree Krishna Automotives Hyd. Pvt. Ltd.: Ratings reaffirmed and assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	88.50	135.75	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Term Loan	5.82	3.18	[ICRA]BBB (Stable); reaffirmed
Long-term/Short-term – Unallocated Limits	5.68	11.07	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>100.00</b>	<b>150.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action considers ICRA's expectation that Sree Krishna Automotives Hyd. Pvt. Ltd. (SKAHPL) will maintain a comfortable credit profile on the back of stable revenues, earnings and debt protection metrics in the absence of any debt-funded capex plans. The company's operational profile remains supported by its established track record as an authorised dealer of Honda Cars India Limited (Honda), FCA India Automobiles Private Limited (Jeep), PCA Automobiles India Private Limited (Citroen) and Jaguar Land Rover Limited (JLR) passenger vehicles (PVs) and Ather Energy Limited (Ather) two-wheelers (2Ws) in Telangana. SKAHPL has over 20 touch points across Hyderabad, Nalgonda and Warangal. The company clocked a revenue growth of ~9% in FY2024 (provisional) on the back of stable demand for Honda, JLR and Citroen PVs and Ather 2Ws, while Jeep PV sales volumes declined by ~57% owing to weak demand.

The company's revenue growth is expected to be flat in FY2025 on account of expected contraction in Jeep PV volumes and lower sales in Q1 FY2025 due to the effect of adverse weather conditions and the General Elections on demand. However, volumes are expected to improve in H2 FY2025 (festive season). The company's margins are likely to contract marginally owing to reduction in dealer commission on a few vehicles, despite which SKAHPL is expected to maintain comfortable debt metrics with proposed gearing of less than 1.0 times and interest cover of over 4.0 times in FY2025. ICRA notes that SKAHPL's high share of revenues (21% in FY2024) from spares, services, and incentives, given its presence in the luxury car segment, supports its operating margins.

The ratings, however, remain constrained by the intense competition in the automobile dealership industry in India and limited bargaining power of dealers, with pricing policies decided by principal Original Equipment Manufacturers (OEMs). The ratings also consider the subdued performance of principle OEMs such as Jeep and Honda because of limited new launches, which led to loss of their market share and impacted SKAHPL's volume growth. Moreover, high waiting periods for JLR PVs, with demand outstripping supply, has also limited SKAHPL's volume growth.

The Stable outlook reflects ICRA's expectation that SKAHPL will continue to record healthy earnings on the back of high share of service and spare income, which would support the company in maintaining a comfortable credit profile.

## Key rating drivers and their description

### Credit strengths

**Established position as dealer of Honda, Jeep, Citroen, Ather and JLR in Telangana** – The company is the exclusive dealer in Telangana for JLR and Citroen, while other dealerships are non-exclusive in nature. It has over 20 showrooms and nine service workshops across Hyderabad, Nalgonda and Warangal. The promoters have been engaged in the dealership business for more than 15 years, which has helped SKAHPL in developing its brand in Hyderabad.

**Healthy financial profile** – SKAHPL's operating margins are supported by increasing share of revenues from spares, services, and incentives, which together accounted for 21% of its revenues in FY2024. While the company's operating margin is expected to moderate in FY2025 on account of reduced commission on a few models, it is expected to be healthy. The company's capital structure is comfortable with a gearing of 0.7 times as on March 31, 2024, and its debt metrics are healthy with an interest coverage of 5.7 times, total debt/OPBDITA of 2.0 times, and DSCR of 1.8 times in FY2024. Despite the expected moderation in margins, its debt metrics are expected to remain comfortable, going forward.

### Credit challenges

**Subdued performance of principal OEMs impact volume growth** – The company's volume growth is expected to be muted in FY2025 on account of subdued performance of a few of its principal OEMs. Limited new launches from principal OEMs such as Honda and Jeep have impacted the company's volume growth. Moreover, high waiting periods for JLR PVs, with demand growth outstripping supply growth, has also limited SKAHPL's volume growth.

**Intense competition among dealers of the same principal and dealers of other OEMs** – The company is the authorised dealer for Honda, Jeep, Ather, JLR and Citroen. Its sales and profitability remain susceptible to intense competition from other dealers of these OEMs, as well as other OEMs in the region. The dealers pass on additional benefits and discounts to customers to increase sales, owing to intense competition, which impacts their profitability to an extent.

### Liquidity position: Adequate

The liquidity of the company is **adequate** with a buffer of ~Rs. 60-70.0 crore in working capital limits against drawing power along with free cash and bank balances of Rs. 11.0-12.0 crore as on March 31, 2024, against repayment obligations of about Rs. 5.0-7.0 crore in FY2025. Further, the company is not planning to avail any additional term loans in the near term. SKAHPL is expected to incur capex of ~Rs. 16.0-20.0 crore, which would be funded through internal accruals.

### Rating sensitivities

**Positive factors** – ICRA could upgrade SKAHPL's ratings if the company demonstrates healthy growth in revenues while maintaining healthy profitability, leading to an improvement in the overall credit metrics.

**Negative factors** – Pressure on SKAHPL's ratings could arise if there is any substantial decline in revenues or profitability margins, or increase in debt levels, impacting its capital structure or coverage metrics. A weakening of the interest coverage ratio to below 2.8 times could also exert negative pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Automobile Dealers</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Sree Krishna Automotives Hyd. Pvt. Ltd. is a private limited company incorporated on September 29, 2006. SKAHPL started its commercial operations from October 2007 in Hyderabad. It is engaged in the automobile dealership and aftersales service of Honda, Jeep, Citroen, JLR and Ather in Hyderabad. The company operates over 20 showrooms and 11 workshops/service centres in Telangana. The company is promoted by Mr. M. Suresh Reddy and family.

### Key financial indicators (audited)

SKAHPL Standalone	FY2023	FY2024*
Operating income	802.8	873.8
PAT	33.4	23.0
OPBDIT/OI	6.9%	5.4%
PAT/OI	4.2%	2.6%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	1.6	2.0
Interest coverage (times)	7.6	5.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; \* Provisional Numbers

### Status of non-cooperation with previous CRA

CRA	Rating	Last PR Date
India Ratings & Research	IND BB+/Negative/IND A4+; ISSUER NOT COOPERATING	May 15, 2024

Source: India Ratings

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 of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 21, 2024	Jun 30, 2023	May 30, 2022	-
1 Fund-based – Cash Credit	Long term	135.75	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
2 Fund-based – Term Loan	Long term	3.18	3.18	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
3 Unallocated Limits	Long term and short term	11.07		[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long-term – Fund-based – Term Loan	Simple
Long-term/Short-term – Unallocated Limits	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	<b>Fund-based – Cash Credit</b>	NA	NA	FY2024	135.75	[ICRA]BBB (Stable)
NA	<b>Fund-based – Term Loan</b>	06/04/2022	8.0-9.5%	FY2028	3.18	[ICRA]BBB (Stable)
NA	<b>Unallocated Limits</b>	NA	NA	NA	11.07	[ICRA]BBB (Stable)/ [ICRA]A3+

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.**

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545 328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**  
+91 44 4596 4318  
[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Nithya Debbadi**  
+91 40 6939 6416  
[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

**Etikala Ravi Teja**  
+91 40 6939 6418  
[etikala.teja@icraindia.com](mailto:etikala.teja@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



### Branches



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