

August 09, 2024

Sireesh Auto Private Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund based	70.60	65.60	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short-Term – Non-Fund based	3.00	0.00	-
Long-Term/Short-term – Unallocated Limits	0.00	8.00	[ICRA]BBB (Stable)/[ICRA]A3+; upgraded from [ICRA]BBB- (Stable)/[ICRA]A3
Total	73.60	73.60	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in the better-than-expected performance of Sireesh Auto Private Limited (SAPL) in FY2024 (provisional) with a strong growth in revenues and earnings, supported by favourable demand for Mahindra and Mahindra Limited's (M&M) passenger vehicles (PV) in the Bengaluru market. While elevated inventory levels posed challenges for the PV dealership industry, healthy booking pipeline has aided SAPL maintain its margins and improve its earnings. The company's revenues have increased by 47% in FY2024 and are expected to record a healthy growth in FY2025 on the back of strong order book while operating margin is expected to remain rangebound (~3.5–4.0%) in the near term. SAPL's debt metrics are expected to remain comfortable given the improved earnings and comfortable debt levels.

The ratings also factor in SAPL's position in the Bengaluru market as the leading dealer of M&M, utility vehicles (UVs) of which command a strong market position in India. The ratings also draw comfort from the strong promoter background and fund infusion from the promoters in the past, when required. The ratings are, however, constrained by the inherent thin margins in an auto dealership business. The ratings note the intense competition among the dealers of various original equipment manufacturers (OEMs). The company's revenues also remain susceptible to slowdown in the market conditions of Bengaluru as all its operations are concentrated in the region.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company's revenues and earnings will improve on the back of healthy booking pipeline, supported by SAPL's established presence in the Bengaluru market.

Key rating drivers and their description

Credit strengths

Strong credentials as one of the largest dealers of M&M's PVs in Bangalore – SAPL is one of the largest dealers of M&M's PVs in Bangalore. The company has five sales showrooms, four workshops, and one used car showroom in Bengaluru.

Healthy revenue growth expected to support improvement in financial profile – SAPL's revenue grew from Rs. 689.0 crore in FY2023 to Rs. 1,012.9 crore in FY2024 (provisional); its scale of operations increased significantly as vehicle sales volumes grew by 36% to 7,013 units in FY2024 from 5,149 units in FY2023 on the back of strong demand, launch of new models and increased preference for personal mobility. The company is expected to post a healthy double-digit revenue growth in FY2025 on the back of volume increase. The coverage indicators (adjusting for unsecured loans), marked by TD/OPBDITA and interest coverage ratio, have improved and continued to remain comfortable at 0.4 times and 40.2 times, respectively, as on March 31, 2024. The same are expected to be comfortable, going forward, as well.

Demonstrated track record of support from the promoter – The company has received regular financial support from the promoters in the past, as and when required. The operations of the company are currently managed by Mr. Nagesh Reddy and his son, Mr. Akarsh Nagesh Reddy.

Credit challenges

Thin margins inherent to auto dealership business – The auto dealership business is characterised by thin profit margins as the same are determined by OEMs, with dealers having a low bargaining power. While servicing and sales of spare parts provide higher margins, their contribution to the overall revenue of SAPL remained low at ~8% in 2024. The company’s operating margin is expected to remain at 3.5–4.0% in the near term.

Intense competition in automobile dealership business – The sales and profitability of the company remain susceptible to intense competition from dealers of other OEMs in the region, which limits pricing flexibility. The company’s revenues also remain susceptible to slowdown in the market conditions of Bengaluru as all SAPL’s operations are concentrated in this region.

Liquidity position: Adequate

The company is expected to generate retained cash flows of Rs. 10.0-15.0 crore in FY2025. It had cash balance of Rs. 17.3 crore as on March 31, 2024 and undrawn working capital limits worth Rs. 47.2 crore (as on June 30, 2024) against minimal repayment obligations of Rs. 0.8 crore and a minimal capex for refurbishing and opening two new workshops. The company’s long-term debt mainly consists of unsecured loans from promoters, which are non-interest bearing.

Rating sensitivities

Positive triggers – The ratings may be upgraded if there is sustained improvement in scale and profitability, while maintaining comfortable working capital cycle, resulting in improved debt coverage metrics.

Negative triggers – The ratings may be downgraded if there is a significant decline in profitability, leading to deterioration in coverage indicators or if a material increase in the inventory levels impacts the company’s liquidity position. Specific credit metric that could lead to a downgrade in ratings includes an interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Automobile Dealers Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SAPL is an authorised dealer of M&M’s passenger vehicles in Bangalore. The company has five showrooms, four workshops and one used car showroom in the city. At present, the operations are managed by Mr. Nagesh Reddy and his son, Mr. Akarsh Nagesh Reddy.

Key financial indicators

SAPL – Standalone	FY2023	FY2024*
Operating income	689.0	1,012.9
PAT	18.6	28.3
OPBDIT/OI	4.0%	3.8%
PAT/OI	2.7%	2.8%
Total outside liabilities/Tangible net worth (times)	2.3	1.2
Total debt/OPBDIT (times)	1.0	0.7
Interest coverage (times)	18.7	40.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: 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 (FY2025)			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			Aug 09, 2024	Jul 31, 2023	Jan 31, 2023	Oct 04, 2021
Fund Based	Long-term	65.60	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
Non-Fund Based Limits	Short term	0.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
Unallocated Limits	Long-term / Short Term	8.00	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based	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	Cash credit	NA	NA	NA	10.00	[ICRA]BBB (Stable)
NA	Inventory Funding	NA	NA	NA	55.60	[ICRA]BBB (Stable)
NA	Unallocated Limits	NA	NA	NA	8.00	[ICRA]BBB (Stable) / [ICRA]A3+

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Annexure II: List of entities considered for consolidated analysis – Not Applicable

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