

August 28, 2024

Pillai and Sons Motor Company: Ratings reaffirmed

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	57.20	76.20	[ICRA] BBB (Stable)/[ICRA]A3+; reaffirmed
Long-term – Term Loan	6.77	3.39	[ICRA] BBB (Stable); reaffirmed
Long-term – Proposed Term Loan	20.00	-	-
Short-term – Non-fund Based	1.00	1.00	[ICRA] A3+; reaffirmed
Long-term – Unallocated	8.03	12.41	[ICRA] BBB (Stable); reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider Pillai and Sons Motor Company's (PSMC) established position as an authorised passenger vehicle (PV) dealer of Maruti Suzuki India Limited (MSIL) in Tamil Nadu and the vast experience of its partners in the industry. The ratings positively factor in MSIL's leadership position in the domestic PV market, which augurs well for the firm's growth prospects. PSMC's revenue rose ~26% to Rs. 498.5 crore in FY2024 (provisional), supported by a healthy growth in sales of Nexa models. The firm is expected to record a low double-digit growth in revenues in FY2025, supported by stable demand for PVs, increased share of service revenues from service bay expansions and new launches by MSIL.

The ratings, however, remain constrained by low margins, inherent to the automobile dealership business, as vehicle sales, that drive a significant part of revenues, command low margins. Besides, 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 margins. Moreover, the firm's earnings were impacted by increased interest costs on account of elevated inventory holding, which led to a moderation of its interest coverage to 3.2 times in FY2024 from 5.3 times in FY2023. Timely moderation in inventory holding remains crucial for the firm's earnings growth, going forward. The ratings also consider the capital withdrawal risks emanating from the partnership nature of the firm.

The Stable outlook on the long-term rating reflects ICRA's belief that the firm will witness revenue growth in the near term, supporting increase in earnings and maintaining a 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 Ertiga were among the best-selling models in the country in FY2023 and FY2024.

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. The company’s margins moderated to 3.8% in FY2024 (provisional) from 4.5% in FY2023 on account of increased proportion of new vehicle sales, which command lower margins than spares and service income and increased discounts. The revenues from spares and accessories improved to Rs. 44.0 crore in FY2024 from Rs. 38.9 crore in FY2023. However, its overall contribution to the operating income declined marginally.

Intense competition – The automotive dealership industry faces stiff competition from various dealerships. Intense competition from the dealers of other OEMs also exerts pressure on PSMC’s sales volumes and margins. Moreover, the incremental investment required 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. 5.0-10.0 crore, cash and bank balances of Rs. 5.1 crore as on March 31, 2024, and Rs. 8.2 crore 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 ratings could be upgraded if the company achieves material growth in revenues and profits, leading to improvement in liquidity and healthy debt protection metrics.

Negative factors – Pressure on the ratings could arise if a significant decline in revenues or earnings or a stretch in the working capital cycle impacts the company’s liquidity position or debt protection metrics. Specific credit metrics, which could lead to ratings downgrade include an 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 Dealers
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 1997 as a partnership firm in Thanjavur, Pillai & Sons Motor Company is an authorised passenger car dealer of MSIL. 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 strategically shifted to MSIL soon after. 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

PSMC Standalone	FY2023	FY2024*
Operating income	395.8	498.5
PAT	7.0	6.7
OPBDIT/OI	4.5%	3.8%
PAT/OI	1.8%	1.3%
Total outside liabilities/Tangible net worth (times)	1.6	2.0
Total debt/OPBDIT (times)	1.9	2.9
Interest coverage (times)	5.3	3.2

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	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Aug 28, 2024	Jun 26, 2023	Aug 08, 2022	-
1	CC	Long-term - Fund based	7.00	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-
2	Working Capital	Long-term / Short-term - Fund based	76.20	[ICRA]BBB(Stable) / [ICRA]A3+	[ICRA]BBB(Stable) / [ICRA]A3+	[ICRA]BBB(Stable) / [ICRA]A3+	-
3	Term Loan	Long-term	3.39	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-
4	Proposed Term Loan	Long-term	-	-	[ICRA]BBB(Stable)	-	-
5	Bank Guarantee	Short-term	1.00	[ICRA]A3+	[ICRA]A3+	-	-
6	Unallocated	Long-term	12.41	[ICRA]BBB(Stable)	[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
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	76.20	[ICRA] BBB (Stable)/ [ICRA] A3+
NA	Term Loan	FY2021	NA	FY2027	3.39	[ICRA] BBB (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA] A3+
NA	Unallocated	NA	NA	NA	12.41	[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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