

Gulf Ashley Motors Limited

Instruments	Amount (Rs. Crore) ¹	Rating Action
Long-term – Fund Based limits	102.50 (enhanced from 52.50)	[ICRA]BBB (Stable) / reaffirmed

ICRA has reaffirmed the long term rating outstanding on the Rs.102.50 crore (enhanced from Rs.52.50 crore) fund-based facilities of Gulf Ashley Motors Limited (“GAML” / “the Company”)² at [ICRA] BBB (pronounced ICRA triple B). The outlook on the long-term rating is stable.

The rating continues to derive comfort from the strong parentage, with Ashok Leyland Limited (ALL) holding 92% stake in the company, its improving market share in the regions of Assam, Jharkhand and North Chhattisgarh, and recent expansions into other markets like Odisha, Gujarat and Uttar Pradesh. Aided by its geographical expansion, GAML reported a healthy 48% YoY growth in sales volumes during FY2016, vis-a-vis the 30% growth in M&HCV industry. GAML’s revenues grew by a robust 84% YoY further supported by improvement in average realisations, due to increased sales of higher tonnage vehicles during FY2016. In the current fiscal, GAML has plans to add outlets in Gujarat (Mundra), Orissa (Bargarh) and Assam (Barpeta Road and Dhubri).

The rating however remains constrained by thin profit margins due to the inherent dealership nature of business, limited share of margin accretive servicing income, and high discounting levels owing to the competitive pressures from dealers of other commercial vehicle OEM’s. During FY2016, GAML’s operating margins dropped by 40 bps to 0.8% owing to penetrative pricing followed in the new areas and also due to high fixed overheads. While the outlet expansions are largely supported by equity funding by the parent, the expansions necessitated higher working capital support leading to rise in debt levels. With lower accruals and higher debt, GAML’s capital structure and coverage indicators deteriorated during FY2016 and are likely to remain weak in the current fiscal too. The rating also remains vulnerable to the inherent cyclicity in the automobile industry.

Going forward, expanding dealer network and improving economic activities in GAML’s territories is likely to support its revenue growth, while improvement in profit margins will remain critical on the stabilisation of the recently started outlets and improvement in retentions.

Company Profile

GAML, incorporated in 2004, by Ashok Leyland Limited ([ICRA]AA- (Stable)/ [ICRA]A1+) and GOCL Corporation Limited ([ICRA]BBB (Stable), [ICRA]A3+) is the authorised dealer for ALL in six regions namely Assam, North Chhattisgarh, Jharkhand, Gujarat, Odisha and Uttar Pradesh. GAML currently has five workshops in Jharkhand (Jamshedpur, Ranchi, Hazaribagh, Dhanbad and Jenamore), five workshops in Assam (Guwahati [2], Silchar, Tinsukia, and Tezpur), four workshops in Chhattisgarh (Bilaspur, Korba, Ambikapur and Raigarh) and one in Gujarat (Gandhidham) and one each in Odisha (Sambalpur) and Uttar Pradesh (Varanasi).

Recent Results (Standalone)

GAML reported a net profit of Rs.0.4 crore on an operating income of Rs.551.4 crore in FY2016 as against a net profit of Rs.1.3 crore on an operating income of Rs.299.8 crore in FY2015 on a standalone basis.

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¹ 100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, refer ICRA’s website (www.icra.in) or other ICRA rating publications



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