

April 06, 2017

Shubh Motors Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based – Long-term	30.00	[ICRA]BB- (Stable); assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned its long-term rating of [ICRA]BB- (pronounced ICRA double B minus) on the Rs. 30.00-crore¹ fund-based bank facilities of Shubh Motors Private Limited ('SMPL' or 'the company')². The outlook on the long-term rating is 'Stable'.

Detailed rationale

The assigned rating factors in favourably the strong experience of the promoters in the automobile dealership business as well as their longstanding relationships with Maruti Suzuki India Limited (MSIL), the market leader in the passenger vehicle (PV) segment in India with a market share of 47.32%³ in April-December 2016.

The rating, however, is constrained by thin profit margins due to the inherent dealership nature of business, limited share of margin-accretive servicing income, and high discounts offered to customers because of competitive pressures from dealers of other passenger vehicle OEMs. During FY2016, SMPL's operating margin dropped to 3.16% from 4.25% in FY2012 owing to high discounts offered to customers coupled with lower incentives from MSIL. Furthermore, in spite of the equity infusion by the promoters in FY2016, the company's capital structure remains highly leveraged, with increased reliance on working capital borrowings to fund its inventory requirements, which has been constraining its coverage indicators over the years. The rating decision also factors in the competition in the PV dealership industry, with rising number of dealerships both for MSIL as well as other OEMs.

Going forward, a sustained improvement in operating profitability and the ability to manage its working capital efficiently would remain the key rating sensitivities.

Key rating drivers

Credit Strengths

- Authorised dealer of Maruti Suzuki India Limited (MSIL), the market leader in the passenger car segment in India, provides future stability and revenue visibility
- Strong experience of the management in the automobile dealership industry
- Steady growth in the top line; CAGR of ~14% during FY2012-FY2016; 9MFY2017 revenues stood at ~Rs.112 crore
- Healthy revenue visibility on the back of new model launches from MSIL

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Source: ICRA research

Credit Weaknesses

- Thin margins and low bargaining power characterise the auto dealership business; margins on vehicles, spares, service and accessories are mostly controlled by MSIL
- Highly leveraged capital structure on account of working capital intensive nature of operations coupled with weak coverage indicators
- Susceptibility of profit margins to the cyclical nature of the Indian passenger vehicle industry and competition from other established and new MSIL dealers in the region as well as from other dealers

Description of key rating drivers:

SMPL is an authorised dealer of Maruti Suzuki's passenger vehicles (PV) involved in the sale of vehicle (new and pre-owned) and spare parts in a few pockets of Madhya Pradesh. It also earns income in the form of incentives from MSIL and payout from financiers. The promoters have extensive experience in the dealership business, and it enjoys strong market position as an authorised dealer for passenger vehicles for Maruti Suzuki India Limited (MSIL). The company has also received various awards from MSIL in the past, which dominates the PV segment, indicated by its market share of 47% during Q3FY2017; ensuring revenue visibility for players including SMPL. Following a series of successful launches by MSIL (including Vitara Brezza and Baleno), the revenues of SMPL registered a CAGR of ~14% during FY2013-FY2016; 9M FY2017 revenues stood at ~Rs.112.26 crore.

At present, SMPL has three showrooms, four workshops and sales outlets in Madhya Pradesh. In FY2016, the company had set up a new showroom in Umariya for increased penetration, but could not realise its true potential as the revenue growth in FY2016 was a meagre ~9% as compared to the average revenue growth of 15% in the previous years. Intense competition among various dealers puts pressure on the pricing, adversely impacting the profitability of the players. Further, the profitability, in case of vehicle dealers, is mainly driven by the efficiency of workshop operations, as the profit from sale of new vehicles is limited to the basic dealer's margin set by the OEM. Moreover, in FY2016 the company was not able to achieve the sale targets in a few months, given by MSIL, due to which the company received low incentives, and increase in discounts offered to customers to boost sales and dented its profitability. Further, with increased reliance on external debt to fund working capital, evident from the near full utilisation of the company's working capital limits, and modest net worth, the company's capital structure stood highly leveraged with gearing of 5.55 times as on March 2016. Going forward, the company plans to open the Nexa showroom for the premium cars segment of MSIL (approval process underway). The total capex is estimated to be of around Rs.6.50 crore, which the management plans to fund mostly through a bank loan which may lead to deterioration in capital structure and debt protection metrics. Timing of the said capex, and terms of debt availed for the same will be critical determinants of the company's credit profile going forward.

Analytical approach: Standalone

Links to applicable criteria

[Corporate Credit Rating Methodology](#)
[Rating Methodology for Automobile Dealerships](#)

About the company:

Shubh Motors Private Limited (SMPL) was incorporated in 2003 and is an authorised dealer of MSIL. SMPL sells new and used vehicles, spares, and provides after sales support and runs a driving school. It currently runs three showrooms and three workshops in Jabalpur, Umariya and Katni, and has four sales outlets in Sleemnabad, Kotma, and Birsinghpur, which have been operating since December 2014. The showrooms have the facilities of a workshop, true value (for used cars), sale of spares and servicing.



Status of non-cooperation with previous CRA: In March 2015, CARE Ratings had suspended the ratings for the company as it did not furnish the information required by CARE for monitoring of the ratings.

Any other information: Not Applicable

Rating history for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the Past 3 years		
		Type	Rated amount	Month-year & Rating	Month- year and Rating in		
		(Rs. crore)		April 2017	FY2016	FY2015	FY2014
					August 2016	May 2015	July 2014
1	Fund based	Long-term	30.00	ICRA BB-(Stable);	ICRA BB-(Stable); suspended	ICRA BB-(Stable); assigned	ICRA BB-(Stable); withdrawn

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Fund based – Long-term CC	-	-	-	30.00	[ICRA]BB- (Stable)

Source: SMPL

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