

Zenica Performance Cars Private Limited

January 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	12.0	-	-
Cash Credit Facilities	28.0	-	-
Short Term -Non-Fund Based	10.0	10.0	[ICRA] A3; reaffirmed
Long Term- Unallocated Limits	-	40.0	[ICRA] BBB- (Stable); reaffirmed

Rating action

ICRA has reaffirmed long-term ratings of [ICRA] BBB- (pronounced triple B minus)¹ for the Rs. 40.0² crore and short-term ratings of [ICRA] A3 (pronounced A three) for the Rs. 10.0 crore bank facilities of Zenica Performance Cars Private Limited (“ZPCPL or Company”) at. The outlook on the long-term rating continues to be Stable.

Rationale

The reaffirmation of the ratings takes into account ZPCPL’s strong share of ~33% in the sales volumes of cars sold by Porsche India Private Limited (Porsche India) in India during 9M CY2017. Porsche has a total of six dealerships in India and the company being the only dealer in the northern region of the country, makes it an important business partner for Porsche’s India business. Further, the rating continues to draw comfort from experienced promoters who have demonstrated their commitment to business through regular financial support in the form of either equity or unsecured loans.

The rating is, however, constrained by moderate profitability indicators evident from thin margin that is determined by the principal. As the company operates only one showroom in Delhi-NCR— Porsche Centre Gurgaon, the company remains exposed to geographical concentration risk as reflected in volume decline in FY2017 following the ban on registration of cars with diesel engine (more than two litre capacity) in Delhi-NCR during December 2015-August 2016.

Weaker than expected operating performance of the company during FY2017 on account of ban on registration of diesel vehicles with engines over two litre capacity in Delhi-NCR (till August 12, 2016) followed by demonetisation resulted in lower profitability as well as moderate the coverage indicators. ICRA notes that infusion of equity by promoter group supported the liquidity profile of the company and allowed it to withstand challenges arising out of moderation in demand post demonetisation. The rating is further constrained by ZPCPL’s high working capital intensity owing to its need to maintain high inventory of demo cars, courtesy cars, display cars and pre-owned cars besides inventory of spare auto parts.

¹ For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

As the dealership's revenue growth is linked to the performance of its principal, ZPCPL's revenue growth would be linked to Porsche India that has some new model launches lined up over next two years. Thus, ability to improve its market presence in India as well as improvement in high margin workshop income would be critical for ZPCPL to maintain profitability. Inability to scale up revenues and profits or deterioration in credit as well as profitability metrics would be key rating sensitivities for the company. Additionally, timely infusion of funds from the promoter as well as efficient management of working capital requirements would also remain key monitorables.

Outlook: Stable

ICRA believes ZPCPL will continue to benefit from its strong presence in Delhi-NCR coupled with new model launches planned by the principal- Porsche India would aid moderate to healthy revenue growth over the medium term. The outlook may be revised to 'Positive', if increase in scale of operations of the company results in improved profitability, which coupled with efficiencies in inventory management drives expansion in coverage indicators. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if any major capital expenditure, or deterioration in working capital cycle weakens its financial risk profile.

Key rating drivers

Credit strengths

Strategic competitive position and dominant market share in India: ZPCPL is the sole dealership of Porsche in northern region of India³. ZPCPL is the dominant player in India with a market share of approximately ~33% during 9M CY2017 in Porsche car sales volumes across India. With recovery in demand prospects after short-term impact of demonetisation, coupled with presence in Delhi-NCR (one of the major market for luxury cars), the market share of the company is expected to improve.

Regular equity infusion by promoters to support dealership's funding requirements and debt obligation: Regular equity infusions by the promoters to the tune of Rs.6.0 crore and Rs.9.0 crore in FY2016 and FY2017 respectively have supported the funding requirements of the company in the past. Additionally, promoters have already infused Rs. 5.0 crore in H1FY2018, which coupled with committed funds (Rs. 1.0 crore in H2FY2018) would support liquidity as well as debt servicing ability in current fiscal.

Healthy demand outlook for luxury car segment in India: Despite various regulatory changes that impacted demand for luxury cars in India over the last two years (ban on sale of diesel vehicles with over two litre engines during December 2015-August 2016 in Delhi-NCR, demonetisation and marginally higher tax incidence⁴), the sales displayed resilience evident from healthy volume growth reported in calendar 2017. With trend of premiumisation gaining further momentum as aspiration level of consumers continue to rise, the luxury car segment in India is expected to report healthy growth over the medium term. Improved demand sentiments are likely to improve revenue growth prospects for ZPCPL.

³ Porsche has six dealerships in India at Ahmedabad, Bangalore, Gurgaon, Mumbai, Kochi and Kolkata

⁴ Effective tax rate of around 53% post implementation of Goods and Services Tax (GST) as against 50% earlier.

Credit weaknesses

Exposure to geographic concentration risk: Since ZPCPL has presence only in Delhi-NCR, it remains exposed to risk arising from geographic concentration as evident from ban enforced by Supreme Court of India on registration of diesel cars having engine capacity of 2,000 cc and above during December 2015-August 2016 in Delhi-NCR.

Moderate financial risk profile characterised by moderate gearing and modest coverage indicators: The financial risk profile of the company remains moderate with gearing of 1.3 times (1.9 times as on March 31, 2016) and interest cover of 1.2 times (1.0 times in FY2016). Further, working capital limits of the company have remained highly utilized, indicating stretched liquidity profile. Nevertheless, funds infused by the promoters in the past supported liquidity profile. Going forward, the financial risk profile of the company is expected to improve in line with scheduled repayment of debt with no major capital expenditure plans.

Low operating margin due to industry dynamics and commission structure decided by the Original Equipment Manufacturer (OEM): The dealership business is characterised by thin margins and low bargaining power of the dealer as the margins on cars are determined by Porsche India (OEM). However, improvement in profitability of the company is also determined by scale up in higher margin entailing workshop income through higher client retention.

Elongated working capital cycle because high dependence on imported vehicles and need to maintain demo, display and courtesy cars: ZPCPL requires significant inventory to maintain demo cars, display cars and courtesy cars. Additionally, since the company depends upon the imports for its new cars which takes few months for delivery, it needs to maintain high inventory of new cars as well.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Automobile Dealerships](#)

About the company:

Incorporated in 2013, Zenica Performance Cars Private Limited (“ZPCPL or Company”) was the first authorised dealership of Porsche in Indian automotive market with its sales showroom cum service workshop, Porsche Centre Gurgaon, located in Gurgaon, Haryana (Golf Course Road). In addition, company also has a Porsche workshop in Chandigarh.

The company is a part of the Zenica Group which also operates an Audi dealership, Zenica Cars India Private Limited, in Delhi-NCR comprising two Audi showrooms, one Audi Approved Plus (pre-owned cars showroom) and one Audi Service Gurgaon. Further, the group has diversified interest with presence of iZenica stores (Zenica Lifestyle Private Limited) across the country which are engaged in reselling of Apple, Inc. products.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	204.6	149.8
PAT (Rs. crore)	-0.4	0.0
OPBDIT/ OI (%)	6.1%	7.1%
RoCE (%)	9.3%	8.0%
Total Debt/ TNW (times)	1.9	1.3
Total Debt/ OPBDIT (times)	6.0	6.2
Interest coverage (times)	1.2	1.2
NWC/ OI (%)	21.6%	34.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017 October 2016	Date & Rating in FY2016	Date & Rating in FY2015
1 Term Loan	Long Term	-	NA	-	[ICRA] BBB- (Stable)	-	-
2 Cash Credit	Long Term	-	NA	-	[ICRA] BBB- (Stable)	-	-
3 Non-Fund Based	Short Term	10.0	NA	[ICRA] A3	[ICRA] A3	-	-
4 Unallocated Limits	Long Term	40.0	NA	[ICRA] BBB- (Stable)	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Limits	NA	NA	NA	50.0	[ICRA]BBB-(Stable)/ [ICRA] A3

Source: Zenica Performance Cars Private Limited

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