Sri Jayalakshmi Automotives Pvt. Ltd

October 26, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	138.00	[ICRA]BB- (Stable); Assigned
Fund based – Term loan	79.87	[ICRA]BB- (Stable); Assigned
Unallocated	17.13	[ICRA]BB- (Stable); Assigned
Total	**235.00**	

Rating action

ICRA has assigned long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 138.00 crore cash credit limits and Rs. 79.87 crore term loan limits of Sri Jayalakshmi Automotives Pvt. Ltd (SJAPL, "the company"). ICRA has also assigned rating of [ICRA]BB- to the Rs 17.13 crore unallocated limits of SJAPL. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating is constrained by weak financial profile of the company characterised by gearing at 5.7 times as on March 31, 2018, interest coverage of 1.3 times and Debt/OPBIDT of 8.2 times for FY2018; tight liquidity position of the company with average working capital utilisation at 96.77% for last 12 months; and large repayment obligations over the medium term. Although the projected cash accruals are insufficient for repayments, equity infusion from promoters and return of advances extended to the group companies is expected to support the timely repayments. SJAPL extended Rs 40.19 crore advance to group company Sri Lakshmi Techno Solutions Pvt Ltd (SLTSPL) which has 147,725 sft of developed area in the residential project "Sree Balajee Lakshmi Nivasam" at Visakhapatnam and the advances are expected to be repaid from the sale of flats. The rating is also constrained by thin margins inherent to the auto dealership business where margins, and prices are controlled by the principal; and high competition amongst dealers of Hyundai Motors India Limited (HMIL) and other OEMs specifically from MSIL.

The ratings however favorably factor in track record of Lakshmi group in the automobile dealership business; significant growth operating income from Rs. 459.5 crore in FY2014 to Rs. 860.4 crore in FY2018 on account of increase in number of showrooms and vehicles sold; and authorised dealership of HMIL, second largest player in the Indian passenger vehicles market. The rating also considers the SJAPL's large network of 18 outlets and 17 workshops spread across Hyderabad, Vishakhapatnam, Bangalore and Rajahmundry cities.

Outlook: Stable

ICRA believes SJAPL will continue to benefit from the extensive experience of its promoters in the auto dealership business. The outlook may be revised to Positive on improvement in margins and timely receipt of advances from the group companies. The outlook may be revised to Negative if cash accrual is lower than expected or any delay in receiving group advances or debt funded capital expenditure weakening the liquidity.

Key rating drivers

Credit strengths

Experience of the promoters in the auto dealership business spanning over 30 years: Incorporated in 1998, Sri Jayalakshmi Automotives Private Limited (SJAPL) is engaged in the sale of passenger vehicles of Hyundai Motor India Limited (HMIL). The company is authorised dealer for Hyderabad, Bangalore, Vijayawada, Vishakhapatnam, Rajahmundry and Vizianagaram cities. As on July 31, 2018, SJAPL has 16 showrooms out of which 9 are in owned facilities and 7 are rented. Also, the company has total of 17 workshops where 10 are in rented space and 7 are in owned facilities. SJAPL is part of Lakshmi group which is into dealership business since 1989.

Healthy revenue growth: The company's operating income has significantly increased from Rs. 459.5 crore in FY2014 to Rs. 860.4 crore in FY2018 on account of increase in number of showrooms and vehicles sold. The company sold 11770 cars in FY2018 compared to 11389 in FY2017. Further, average vehicle reaslisation increased with higher share of sales from the premium segment models like Creta and Verna in the last 3 years.

Positive outlook for the domestic passenger vehicle industry: The company is an authorised dealer of HMIL which has the second highest market share at 15.7% in the passenger vehicle segment followed by MSIL at 52.5% in Q1FY2019. Increasing premiumization of its volume will translate into healthy revenue growth and profitability margins.

Credit challenges

Weak financial risk profile: The financial risk profile is weak with gearing at 5.7 times as on March 31, 2018, interest coverage of 1.3 times and Debt/OPBIDT of 8.2 times for FY2018. The total debt outstanding as on March 31, 2018 is Rs. 217.20 crore; of this, Rs. 134.90 crore is working capital debt and Rs. 79.86 crore is term loans availed for showroom/workshop expansions in Hyderabad and Bangalore region.

Tight liquidity position: The average utilisation of working capital limits is high at 96.77% for the last 12 months; further, high advances extended to group companies constrained the liquidity position of the company. The company has extended advances of Rs 50.97 crore to its group companies as on March 2018 with Rs 40.19 crore extended to SLTSPL.

Large repayment obligations in the medium term: The company has large repayment obligations over the next 3 years with projected cash accruals insufficient for repayment of term loan obligations. However, the promoters have infused Rs 12.95 crore in the past 12 months to support the repayment obligations. Further, the company is expected to recover advances extended to SLTSPL from the sale of flats with SLTSPL owning 147,725 sft of area in the residential project "Sree Balajee Lakshmi Nivasam" which is ready for occupation currently.

Auto dealership business characterised by high competitive intensity, thin margins and weak bargaining position: With large number dealers in the passenger car segment and existing OEMs launching newer variants, the competition in the segment is high. SJAPL faces high competition amongst dealers of Hyundai Motors India Limited (HMIL) and other OEMs specifically MSIL. The operating margins are low in the range of 2.5-3.6% for the last 5 years owing to trading nature of the business.

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 Auto dealerships

About the company:

Incorporated in 1998, Sri Jayalakshmi Automotives Private Limited (SJAPL) is engaged in the sale of passenger vehicles of Hyundai Motor India Limited (HMIL). The company is the authorised dealer for HMIL in Hyderabad, Bangalore, Vijayawada, Vishakhapatnam, Rajahmundry and Vizianagaram. As on July 31, 2018, SJAPL has 16 showrooms out of which 9 are in owned facilities and 7 are rented. Also, the company has total of 17 workshops where 10 are in rented space and 7 are in owned facilities. SJAPL is part of Lakshmi group which is into dealership business since 1989. Lakshmi group was into 2-wheeler dealership till 1998 and they ventured into 4-wheeler dealership segment through SJAPL in 1998.

Key financial indicators:

	FY2016	FY2017	FY2018 (provisional)
Operating Income (Rs. crore)	808.9	901.3	860.4
PAT (Rs. crore)	1.3	2.6	3.1
OPBDIT/ OI (%)	2.5%	2.5%	3.1%
RoCE (%)	10.3%	10.3%	10.6%
Total Debt/ TNW (times)	6.2	7.3	5.7
Total Debt/ OPBDIT (times)	7.6	8.7	8.2
Interest coverage (times)	1.3	1.4	1.3

Source: SJAPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Oct 2018	-	-	-
1	Cash credit	Long Term	138.00	-	**[ICRA]BB-(Stable)**	-	-	-
2	Term loan	Long Term	79.87	79.87	**[ICRA]BB-(Stable)**	-	-	-
3	Unallocated	Long Term	17.13	-	**[ICRA]BB-(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	Term loan - 1	08/12/2016	-	08/12/2024	63.86	[ICRA]BB- (Stable)
NA	Term loan - 2	22/12/2017	-	22/12/2021	11.35	
NA	Term loan - 3	22/12/2017	-	22/12/2020	3.16	
NA	Term loan - 4	28/04/2012	-	28/04/2022	1.01	
NA	Term loan - 5	31/08/2016	-	31/08/2019	0.26	
NA	Term loan - 6	29/08/2017	-	29/08/2019	0.22	
NA	Cash credit	-	-	-	138.00	

Source: SJAPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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