ICRA

September 27, 2019

Concorde Motors (India) Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	15.00	0.00	[ICRA]BBB+; outlook revised to Negative from Stable; and withdrawn
Long-term, Fund-based Facilities – Cash Credit	10.00	35.00	[ICRA]BBB+ reaffirmed; outlook revised to Negative from Stable
Short-term, Fund-based Facilities – Working Capital Demand Loan	225.00	140.00	[ICRA]A2; reaffirmed
Unallocated Limits	0.00	60.00	[ICRA]BBB+ (Negative) / [ICRA]A2; assigned
Total	**250.00**	**235.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook takes into account the company's continued weak credit profile, as characterised by operating losses, poor liquidity and an increase in total debt, resulting in a weakened capital structure and coverage indicators in FY2019 (as per provisional financials). Concorde Motors (India) Limited (CMIL) has posted operating losses consistently over the past seven years, which widened sharply in FY2018 and FY2019. Decline in demand from cab aggregators, liquidation of old inventory – both BS III vehicles and the discontinued Indica and Indigo models – at discounted prices, the loss of excise credit on stock older than one year due to the implementation of the goods and services tax (GST), increase in employee costs owing to additional sales force recruited for marketing to the personal car segment and higher overheads led to high operating losses over the last two years (FY2018-FY2019). The current slowdown in the domestic automobile industry amidst a tighter financing environment is likely to adversely impact the demand momentum in the near term. ICRA notes the company is carrying sizeable inventory in its books, and the timely liquidation of the same is a key rating sensitivity, especially in the backdrop of the transition to BS VI with effect from April 01, 2020. In order to restrict further inventory build-up, CMIL has significantly slowed down purchases from TML. However, CMIL reported 4.1% de-growth in sales volume in FY2019 and a further 50.2% during 5M FY2020, on a YoY basis, resulting in a loss in its market share among Tata Motors Limited (TML's) passenger vehicles (PV) dealerships to ~6.9% in 5M FY2020 from ~9.4% in FY2019. The PV dealership business is characterised by stiff competition. It is also exposed to the inherent cyclicality associated with the industry.

The ratings, however, continue to draw comfort from the financial support being provided by CMIL's parent, TML (rated [ICRA]AA- (Negative) / [ICRA]A1+, and the financial flexibility arising from being a wholly-owned subsidiary of TML. CMIL is strategically important to TML, as the company is required to set up its operations wherever TML identifies gaps in terms of service delivery, thin dealership network or weak volumes. The rating assigned to CMIL factors in the very high likelihood of its parent, TML, extending financial support to it because of close business linkages between them. TML has been supporting CMIL by regular funds infusion (~Rs. 22 crore infused in FY2018 as compulsorily convertible debentures

(CCDs) and Rs. 100 crore in the form of share application money in FY2019), giving compensations for discounts it offers to the customers or through various incentive schemes. However, despite the equity infusion, CMIL's net worth turned negative in FY2019. TML has indicated infusing additional equity in CMIL in FY2020, equal to the funding gap of FY2019 (Rs. 100 crore equity infused in FY2019, against CMIL's cash loss of Rs. 120.9 crore) and ICRA estimated cash loss of ~Rs. 120 crore in FY2020. However, ICRA notes that this funding support is received only during March end, and the interim funds requirement have to be met by CMIL through its working capital borrowings and debt / inter corporate deposits from Group companies. The ratings factor in CMIL's diversified presence across multiple cities in India with professional management and the improving position of TML in the Indian PV industry.

ICRA has also withdrawn the [ICRA]BBB+ (pronounced ICRA triple B plus) rating with negative outlook assigned to CMIL's Rs. 15.0 crore term loan, as there is no amount outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Operational and financial support from being wholly-owned subsidiary of TML – CMIL is a wholly-owned subsidiary of TML (rated [ICRA]AA- (Negative)/ [ICRA]A1+). CMIL enjoys strong financial and operational support from TML, which includes access to capital, management and systems and supervision by a strong board. The rating assigned to CMIL factors in the very high likelihood of its parent, TML, extending financial support to it because of close business linkages between two entities. TML has been supporting CMIL by regular funds infusion (~Rs. 22 crore infused in FY2018 as CCD and Rs. 100 crore in the form of share application money in FY2019), giving compensations for discounts it offers to the customers or through various incentive schemes. TML has indicated infusing additional equity in CMIL in FY2020, equal to the funding gap of FY2019 (Rs. 100 -crore equity infused in FY2019 against CMIL's cash loss of Rs. 120.9 crore) and ICRA estimated cash loss of ~Rs. 120 crore in FY2020. However, ICRA notes that this funding support is received only during March end and the interim funding requirement have to be met by CMIL through working capital borrowings and debt / inter corporate deposits from Group companies. Any dilution in the expected level of support from TML or change in the parent's credit profile would be a key rating sensitivity.

Strategically important to TML, being the largest dealer of its PVs, with diversified geographical presence – At present, CMIL operates out of eight cities in India – Bangalore, Chennai, Hyderabad, Kochi, Mumbai, Delhi, Pune and Thane, with 38 showrooms and 20 service outlets and has a presence at multiple locations in each city. CMIL remains strategic to TML, as the company is required to set up its operations wherever TML identifies gaps in terms of service delivery, thin dealership network or weak volume. In FY2019, CMIL closed down four showrooms (Delhi (one), Mumbai (one) and Bangalore (two)), as these outlets were closer to other existing outlets or the revenue potential was low.

Credit challenges

Continued weak operating performance; current automotive slowdown may result in widened losses in the current year – CMIL has been consistently reporting operating losses over the past seven years. The company's operating losses widened sharply in FY2018 and continued in FY2019. Decline in demand from cab aggregators, liquidation of old inventory–both BS III vehicles and the discontinued Indica and Indigo models–at discounted prices, the loss of excise credit on stock older than one year owing to GST implementation, increase in employee costs due to additional sales force recruited for marketing to the personal car segment and higher overheads led to high operating losses in the last two years (FY2018-FY2019). The current slowdown in the domestic automobile industry amidst a tighter financing environment is likely to adversely impact the demand momentum in the near term. ICRA notes the company is carrying sizeable inventory in its books, and the timely liquidation of the same is a key rating sensitivity, especially in the backdrop of the transition to BS VI with effect from April 01, 2020.

Weak capital structure and coverage indicators – CMIL's total debt increased to Rs. 602.1 crore as on March 31, 2019 (as per provisional financials) from Rs. 516.1 crore as on March 31, 2018 due to high net losses. Furthermore, its networth turned negative in FY2019 (as per provisional financials). The company's standalone liquidity profile is poor with consistent operating losses. While TML does provide funding support to CMIL, it is received only during March end, and the interim funds requirement have to be met by CMIL through its working capital borrowings and debt / inter corporate deposits from Group companies. The average utilisation of the sanctioned fund-based cash limits thus stood high at ~85% during the 15-month period ended June 30, 2019.

Consistent decline in market share of CMIL in TML's sales – CMIL is the largest distributor of PVs sold by TML. At present, it operates out of eight cities in India. In order to restrict further inventory build up, CMIL has significantly slowed down purchases from TML. CMIL reported 4.1% degrowth in sales volume in FY2019 and a further 50.2% during 5M FY2020, resulting in a loss in its market share among TML's PV dealerships to ~6.9% in 5M FY2020 from ~9.4% in FY2019.

Intense competition in PV dealership industry – The company faces stiff competition from other PV dealers TML, as well as PV dealers of other original equipment manufacturers (OEMs).

Liquidity position: Adequate

CMIL's liquidity profile is adequate, as it enjoys strong financial support from TML. TML has been supporting CMIL by regular funds infusion (~Rs. 22 crore infused in FY2018 as CCD and Rs. 100 crore in the form of share application money in FY2019), giving compensations for discounts it offers to the customers or through various incentive schemes. TML has indicated infusing additional equity in CMIL in FY2020, equal to the funding gap of FY2019 (Rs. 100-crore equity infused in FY2019 against CMIL's cash loss of Rs. 120 crore) and ICRA estimated cash loss of ~Rs. 120 crore in FY2020. However, on a standalone basis, its liquidity profile is poor with significant operating losses and high utilisation of working capital limits.

Rating sensitivities

Positive triggers – ICRA could upgrade CMIL's rating if the company demonstrates healthy growth in sales coupled with profits on a sustained basis. Significant reduction in debt levels supported by improved accruals and efficient working capital management and / or significant equity infusion from TML would also be positive triggers.

Negative triggers – Negative pressure on CMIL's rating could arise in case of any indication of withdrawal of support from TML. Any further significant degrowth in revenues, resulting in further widening of losses, or a stretch in working capital intensity, resulting in further increase in debt, may also trigger a downgrade. Furthermore, any adverse change in the rating of TML could also negatively impact the company's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Automobile Dealership Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent / Group Support	Parent Company: Tata Motors Limited (TML) The rating assigned to CMIL factors in the very high likelihood of its parent, TML (rated [ICRA]AA- (Negative) / [ICRA]A1+), extending financial support to it because of close business linkages between them. We also expect TML to be willing to extend financial support to CMIL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 1972 as Minicar (India) Limited, CMIL is a wholly-owned subsidiary of TML and is primarily involved in sales and servicing of PVs for TML. CMIL's PV dealership operations began in 1998 with the entry of TML in the PV segment. The dealership operations were initially started as a 50:50 joint venture with Jardine International Motors Limited (one of the largest international players in the car dealership segment with presence in around 90 countries) mainly to expand the direct retail footprint for the PVs of TML and to provide a service experience around the PV business of TML. At present, CMIL has 38 showrooms and 20 service outlets spread across eight cities in India, with a volume of more than 19,500 vehicles sold in FY2019.

In FY2019, on a provisional basis, CMIL reported a net loss of Rs. 132.9 crore on an operating income (OI) of Rs. 1,229.0 crore, against a net loss of Rs. 129.5 crore on an OI of Rs. 1,180.5 crore in FY2018.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	1,123.5	1,180.5	1,229.0
PAT (Rs. crore)	-45.3	-129.5	-132.9
OPBDIT/OI (%)	-0.5%	-7.2%	-5.8%
RoCE (%)	-2.1%	-17.0%	-14.2%
Total Outside Liabilities/Tangible Net Worth (times)	4.7	57.4	-38.4
Total Debt/OPBDIT (times)	-62.5	-6.1	-8.4
Interest Coverage (times)	-0.1	-1.8	-1.3
DSCR	0.0	-1.3	-1.0

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					23-Sep-2019	28-Jun-2018	-	14-Dec-2016
1	Term Loan	Long-term	-	-	[ICRA]BBB+ (Negative); withdrawn	[ICRA]BBB+ (Stable)		[ICRA]A- (Stable)
2	Cash Credit	Long-term	35.00	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]A- (Stable)
3	Working Capital Demand Loan	Short-term	140.00	-	[ICRA]A2	[ICRA]A2	-	[ICRA]A1
4	Unallocated Limits	Long-term / Short-term	60.00	-	[ICRA]BBB+ (Negative) / [ICRA]A2	-	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.00	[ICRA]BBB+ (Negative)
NA	Working Capital Demand Loan	NA	NA	NA	140.00	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	60.00	[ICRA]BBB+ (Negative) / [ICRA]A2
NA	Term Loan	FY2013	12.0%	FY2018	0.00	[ICRA]BBB+ (Negative); withdrawn

Source: Concorde Motors (India) Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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