

September 30, 2019

## Royal Motors Gwalior Private Limited: [ICRA]B+(Stable) assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	5.00	7.00	[ICRA]B+(Stable); assigned/outstanding
<b>Total</b>	<b>5.00</b>	<b>7.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reflect the extensive experience of Royal Motors Gwalior Private Limited's (RMGPL) promoters in the auto dealership business. The company has an established relationship with Hyundai Motors India Limited (HMIL) since 1999. This apart, there was a healthy growth in the company's top line in FY2019 owing to improved sales in January and February 2019. ICRA notes that RMGPL's scale of operations remains modest. Its revenue growth has been accompanied by an improvement in the profitability metrics (robust growth in operating margin, as per the company's provisional financials for FY2019). Further, the reaffirmed ratings consider the steady improvement in RMGPL's capital structure, characterised by improvement in gearing owing to growing cash accruals in the recent fiscals.

These strengths are, however, partially offset by the weakness prevalent in the automobile sector in FY2020. Despite the healthy growth in FY2019, the company's ability to recover from any potential hits owing to the sectoral weakness will be crucial. This apart, the company has high geographic concentration with only two showrooms, one each in Gwalior and Guna, respectively. Despite an increase in revenue contribution from its showroom in Guna in FY2019, most of its sales come from its showroom in Gwalior, indicating its high geographic concentration. Furthermore, the entire revenue of the company is derived from a single original equipment manufacturer (OEM), i.e. HMIL. This limits its bargaining power and increases dependency on the growth plans of the principal. The ratings are further constrained by stiff competition from other dealers and manufacturers of passenger vehicles (PVs), such as Maruti Suzuki India Limited.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that RMGPL will continue to benefit from its long track record of operations, and its established relations with HMIL.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters** – ICRA's rating draws comfort from the experience of the promoters of approximately two decades in the auto dealership business. The company's promoters have other Group companies which deal in vehicles of Mahindra & Mahindra Limited, Ford India Private Limited, etc. ICRA also notes the company's established trade relations with HMIL, having been associated with the automobile manufacturer since 1999.

**Healthy top-line growth in FY2019; continued improvement in profitability** – RMGPL's revenues grew 14% in FY2019 owing to increased sales in January and February 2019, following the Madhya Pradesh Government's decision to introduce a rebate on RTO<sup>1</sup> registration in Q4 FY2019. This apart, the company's profitability has steadily increased since FY2016, more than doubling to 5.94% in FY2019 from 2.90% in FY2016.

**Steady improvement in capital structure of RMGPL** – The company's capital structure has steadily improved in the recent fiscals owing to an improving total net worth driven by growing cash accruals. This is characterised by its gearing ratio of 1.02x as on March 31, 2019, which is a sizeable improvement from 2.00x as on March 31, 2016. This apart, the company has healthy coverage indicators with interest coverage at 4.88x as on March 31, 2019.

## Credit challenges

**Weakness in automobile sector** – The slowdown in economy, inflationary trend and policy changes impact consumer discretionary items like car purchase. In the backdrop of a decline in demand in the automobile industry in FY2020, RMGPL's ability to recover from any potential hits to its business, owing to this sectorial weakness, will be crucial.

**High geographic concentration** – RMGPL is susceptible to risks associated with high geographic concentration. The company has one showroom each in Gwalior and Guna. Despite the share of revenue contribution from its Guna showroom increasing to 13.90% in FY2019 from 5.32% in FY2018, the company continues to derive most of its from its Gwalior showroom.

**Intense competition in automobile-dealership industry** – RMGPL enjoys a moderate competitive position owing to the presence of only one other HMIL dealership in Gwalior. However, it faces stiff competition from dealers of other four-wheeler OEMs. The rising competition could force the dealers to pass on higher discounts, thereby lowering the profitability.

## Liquidity position: Stretched

RMGPL's liquidity is **Stretched**. Owing to high utilisation of its working capital facilities of ~77% in the 12-month period ending July 2019, because of the current weakness in the automobile industry, RMGPL will be exposed to slow-moving inventory. This in turn would increase its working capital intensity and put stress on its liquidity.

## Rating sensitivities

**Positive Trigger:** ICRA could consider upgrading RMGPL's rating in the event of an improvement in the overall demand in the automobile sector. A sustained improvement in its inventory holding, leading to improved working capital intensity could trigger an upward revision in its ratings.

**Negative Trigger:** Negative pressure could arise if the company's working capital intensity deteriorates owing to slow-moving inventory, leading to tightening liquidity. This apart, significant deterioration in its profitability could put downward pressure on its rating.

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<sup>1</sup> RTO – Regional Transport Office

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

## About the company

Incorporated in 1999 and promoted by the Samadhiya family, RMGPL is one of the entities in the Royal Group of Companies and is an authorised dealer of HMIL PVs. The day-to-day management of the company is taken care of by Mr. Hari Kishan Oberoi, along with the support from other directors. The company owns one 3S (Showroom Spares Services) showroom in Gwalior, MP. It also has a showroom in Guna, MP.

In FY2019, RMGPL reported a net profit of Rs. 2.24 crore on an operating income (OI) of Rs. 81.43 crore, on a provisional basis, as against a net profit of Rs. 1.46 crore on an OI of Rs. 71.28 crore in the previous year.

## Key financial indicators (audited/provisional)

	FY2018	FY2019
Operating Income (Rs. crore)	71.28	81.43
PAT (Rs. crore)	1.46	2.24
OPBDIT/OI (%)	4.70%	5.94%
RoCE (%)	25.11%	29.93%
Total Outside Liabilities/Tangible Net Worth (times)	1.80	1.80
Total Debt/OPBDIT (times)	2.01	1.72
Interest Coverage (times)	4.59	4.88
DSCR	3.33	3.84

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					30-Sep-2019	19-Sep-2019	27-June-2018	15-Nov-2017	30-Dec-2016
1	Fund-based Cash Credit	Long Term	7.00	7.00	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+; ISSUER NOT COOPERATING	[ICRA]B+

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](http://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	7.00	[ICRA]B+ (Stable)

*Source: RMGPL*

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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