May 15, 2020 Revised

Gulf Ashley Motor 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 fund-based facilities (sublimit)	(40.00)	(40.00)	[ICRA]BBB+; reaffirmed; outlook revised to Negative from Stable
Short-term fund-based facilities	145.00	145.00	[[ICRA]A2; reaffirmed
Short-term fund-based facilities (sublimit)	(55.00)	(55.00)	[ICRA]A2; reaffirmed
Total	**145.00**	**145.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings of Gulf Ashley Motor Limited (GAML) draws comfort from its strong parentage with Ashok Leyland Limited (ALL; rated [ICRA]AA (Negative)/[ICRA]A1+) which holds a 93% stake in the company. GAML is strategically important to ALL as its sole captive dealership, and over the years, it has aided in improving ALL's market share in the medium and heavy commercial vehicle (M&HCV) segment by gaining a strong foothold in the otherwise underpenetrated regions for ALL. Further, GAML enjoys a strong financial flexibility with the lenders being subsidiaries of ALL, and also benefits from a strong representation of ALL in GAML's board and operations.

The ratings, however, remain constrained by the high vulnerability of GAML's revenues to cyclicality in the commercial vehicle (CV) industry, moderate financial profile of the company with modest scale of operations and thin margins, as inherent in the dealership industry. Given subdued demand and rising operating costs, GAML closed six outlets in the last two years across various states, bringing its dealership network to 13 outlets currently. This has moderated GAML's revenues in FY2020 (down nearly 49% YoY), which has been further affected by poor demand for CVs due to economic slowdown.

The revision in outlook on long-term rating to Negative reflects the expected weakening of GAML's credit profile arising from the Negative outlook for the Indian CV industry sector, given the sharp contraction envisaged in the economic activities arising from the novel coronavirus (Covid-19) pandemic. The 54-day nationwide lockdown announced by the Government of India to restrict the spread of the pandemic has disrupted vehicle production, supply chain, etc. and shall significantly impact demand with the prolonged recovery expected in economic activities.

Key rating drivers and their description

Credit strengths

Strong parentage – GAML's business profile remains supported by its strong parentage, and access to operational and financial support from the parent, as received in the past, which aids in good financial flexibility with lenders. It also benefits from the managerial expertise of ALL with its key managerial positions held by ALL's key employees. ALL holds a 93% stake in GAML and uses it for strengthening its presence in the country; it is viewed as an extended arm of ALL.

Strategic importance of GAML to ALL to gain foothold in under-penetrated regions – GAML is the sole captive dealer of ALL, which was established to increase the presence of the latter in northern, eastern and western regions where ALL's market share was low in the past. Over years, GAML has improved ALL's visibility by continuous dealer expansion across different states which aided in increasing ALL's market share in its areas of operations. Amid the ongoing slowdown, there are no major capex plans in the near term, but with the revival in the CV segment, GAML will continue to identify under-penetrated regions and set up outlets in these markets.

Diversified presence in the northern, eastern and western regions of India – GAML has a diversified presence in India with 13 outlets spread across Jharkhand, Assam, Chhattisgarh, Gujarat, Orissa and Uttar Pradesh. Earlier, GAML was the sole authorised ALL dealer in Assam, Jharkhand and Chhattisgarh. With ALL commanding reasonable market share in most of GAML-occupied regions and considering the cost of operations, there has been a change in dealership structure in the recent period. Accordingly, GAML has gradually exited a few regions. In last two years, GAML has closed six out of its 19 dealerships in various states and has been replaced by third-party players.

Strategic initiatives to control costs and improve dealer profitability – With the auto industry facing turbulent times in the last one and half years, GAML has undertaken initiatives to bring down various costs. Cost benefit analysis was done for each dealer outlet, unviable outlets have been closed and effective inventory management has been undertaken to clear the BS-IV vehicle inventory well ahead of the mandatory deadline to switch to BS-VI regime. Faster collection from debtors and low inventory levels has aided in substantial reduction of debt levels and corresponding interest costs. Thrust is being laid on increasing the share of high-margin spares and services business to improve the dealership profitability, eventually strengthening the overall financial profile of the company.

Credit challenges

Susceptibility of business to cyclicality in the CV industry – With limited presence in the spares and service market (~6% of the revenues in FY2019) GAML's performance is largely dependent on the cyclical automotive demand in the CV segment and performance of ALL in the regions of operation. Demand conditions have been weak in FY2020, affected by oversupply in the market and slowing economic activities.

Financial profile characterised by sharp decline in revenues, net loses and weak debt indicators – Consequent to a 46% decline in ALL's M&HCV volumes in FY2020, GAML witnessed a sharper 54% volume decline in FY2020, also affected by the closure of various outlets in the last two years. Further, low retentions per vehicle moderated the already thin operating margins. GAML's top line witnessed high double-digit growth over the last five years with CAGR of 33.5% for FY2015–FY2019 period. However, in 9M FY2020, the operating income sharply declined by 44.7% YoY to Rs. 389.9 crore with a 60 bps moderation in operating margin to 0.6% in 9M FY2020 compared to 1.2% OPM in FY2019, resulting in net loss of Rs. 4.3 crore for 9M FY2020. Low operating profits led to deterioration in interest coverage ratio to 0.6 times in 9M FY2020 from 1.2 times in FY2019. While cash accruals were negative in 9M FY2020, measures taken to improve working capital cycle significantly reduced debt levels to Rs. 43 crore as on December 31, 2019 against Rs. 81 crore as on March 31, 2019. Consequently, the gearing largely remained at similar level at 1.5 times as on December 31, 2019 against 1.4 times as on March 31, 2019.

Liquidity position: Adequate

The company's liquidity position remains **adequate**. The company had a positive free cash flow of Rs. 57.3 crore in FY2019 due to an extraordinary gain in the fiscal, but as this was paid as dividend to ALL in FY2020 (in line with expectations). Fund flow from operations are expected to be negative for FY2020. However, GAML does not have any term loan repayment obligations, nor it has any significant capex plans in the near term. GAML had cash and bank balances of Rs. 1.5 crore as on April 30, 2020 and a buffer of Rs. 13.3 crore from the undrawn working capital facilities as on April 30, 2020, out of the available drawing power. The average utilisation for the 12-month period that ended in March 2020 stood at 85% of the drawing power and 34% of the sanctioned limits.

Rating sensitivities

Positive triggers – Given the current Negative outlook on the industry, a rating upgrade is less likely in the near term. ICRA could upgrade the company's rating if it demonstrates substantial improvement in revenues, profit margins and debt metrics, which helps strengthen the financial risk profile.

Negative triggers – Pressure on the company's ratings could arise in case of a sharp deterioration in its credit or operational profile owing to the persistent slowdown in demand and/or supply chain disruption due to Covid-19, causing more-than-expected decline in revenues or margin, or any further moderation in debt metrics. The ratings may also be revised downwards if there is a weakening in the credit profile of ALL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships
Parent/Group Support	Parent Company: Ashok Leyland Limited The rating assigned to GAML factors in the high likelihood of its parent, ALL, supporting GAML given the close business linkages between these; there also exists a consistent track record of ALL having extended timely financial support in the form of equity infusion to GAML in the past, whenever a need arose
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 2004, GAML is a subsidiary of ALL and is the authorised dealer for the same in six regions, namely Assam, North Chhattisgarh, Jharkhand, Gujarat, Odisha and Uttar Pradesh. GAML currently has two workshops in Jharkhand (Jamshedpur and Jainamore), six workshops in Assam (Gorchuk, Behrabari, Silchar, Tinsukia, Tezpur and Barpeta), four workshops in Chhattisgarh (Bilaspur, Korba, Ambikapur and Raigarh) and three in Gujarat (Gandhidham, Vaapi and Mundra), two in Odisha (Sambalpur and Bargarh) and one in Uttar Pradesh (Varanasi).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	849.1	953.2
PAT (Rs. crore)	2.4	26.7
OPBDIT/OI (%)	0.9%	1.2%
RoCE (%)	6.6%	28.1%
Total Outside Liabilities/Tangible Net Worth (times)	5.6	2.8
Total Debt/OPBDIT (times)	20.1	7.1
Interest Coverage (times)	1.1	1.2
DSCR	1.6	3.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 15-May 2020	Chronology of Rating History for the Past 3 Years Date & Rating in FY2019 04-Jan 2019	Date & Rating in FY2018 22-Dec 2017	Date & Rating in FY2017 09-Nov 2016
1	Fund-based Working Capital Facility (sublimit)	Long Term	(40.00)		[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	-
2	Fund-based Working Capital Facility	Short Term	145.00		[ICRA]A2	[ICRA]A2 (Stable)	[ICRA]A3+	-
3	Fund-based Working Capital Facility (sublimit)	Short Term	(55.00)		[ICRA]A2	[ICRA]A2	[ICRA]A3+	-
4	Fund-based Working Capital Facility	Long Term/ Short Term	-		-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-
5	Fund-based Working Capital Facility	Long Term	-		-	-	-	[ICRA]BBB (Stable)

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 click here

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	Cash Credit (sublimit)	NA	NA	NA	(40.00)	[ICRA]BBB+ (Negative)
NA	Working Capital Demand Loan	NA	NA	NA	65.00	[ICRA]A2
NA	Overdraft	NA	NA	NA	25.00	[ICRA]A2
NA	OD – E – dfs	NA	NA	NA	55.00	[ICRA]A2
NA	Overdraft (sublimit)	NA	NA	NA	(5.00)	[ICRA]A2
NA	Short term loans (sublimit)	NA	NA	NA	(25.00)	[ICRA]A2
NA	Pre-shipment financing under export orders facility (sublimit)	NA	NA	NA	(25.00)	[ICRA]A2

Source: Gulf Ashley Motor Limited

Corrigendum

Document dated May 15, 2020 has been corrected with the revision as detailed below:

- Section Re: Under 'Key Financial Indicators (audited) on Page number 3, the PAT (in Rs. crore) has been updated to Rs. 2.4 crore and Rs. 26.7 crore for FY2018 and FY2019 respectively instead of 0.3% for FY2018 and 2.8% for FY2019 mentioned earlier.

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