

Lexus Motors Limited

June 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	99.50	85.00	[ICRA]B+ (Stable); reaffirmed
Non-fund Based Limits	0.50	2.00	[ICRA]A4; reaffirmed
Untied Limits	-	13.00	[ICRA]B+(Stable)/ [ICRA]A4; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) assigned to the Rs. 85.00-crore¹ (reduced from Rs. 99.50 crore) fund-based facilities of Lexus Motors Limited (LML)². ICRA has also reaffirmed short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 2.00-crore (revised from Rs. 0.50 crore) non-fund based bank facility of LML. ICRA has further reaffirmed the long-term rating of [ICRA]B+ and the short-term rating of [ICRA]A4 to the Rs. 13.00-crore (revised from Nil) untied limits of LML. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings considers the cyclical nature and the inherently low margins in the automobile dealership business due to the industry dynamics and the commission structure decided by the principal. LML has a weak financial profile, characterised by an aggressive capital structure and depressed level of coverage indicators. The ratings continue to be impacted by the vulnerability of the project off-take risk, given the current slack in demand in the commercial real-estate segment in Kolkata, and lack of bookings for the property till date.

The ratings, however, derive comfort from the promoters' experience in the automobile dealership business, with a track record of over two decades and the established market position of LML in Kolkata as an authorised dealer of Tata Motors Limited (TML) for both commercial vehicles (CV) and passenger vehicles (PV) segments, and as the sole dealer of Jaguar Land Rover (JLR) in eastern India.

In ICRA's opinion, the ability of the firm to scale up its operations and improve profitability, while efficiently managing its working capital requirements will remain key rating sensitivities.

Outlook: Stable

ICRA believes that the company will continue to benefit from the long experience of the promoters. The outlook may be revised to Positive if the company is able to scale up its operations while improving profitability, capital structure, and coverage indicators. The outlook may be revised to Negative if there is any increase in the working capital requirement, which could adversely impact the liquidity position of the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Experience of the promoters – The promoters have experience of over two decades in the automobile dealership business. The promoters' track record in the business mitigates the operational risk, to an extent.

Established position as an authorised dealer of TML in Kolkata – The company is among the leading dealers of TML in eastern India, dealing in the entire range of commercial/ passenger vehicles along with JLR vehicles. LML is also the sole dealer for the JLR segment in eastern India and operates through two showrooms and one workshop in Kolkata and Cuttack. In addition, the company has 12 showrooms (seven PV and five CV), six workshops (three PV and three CV) and three customer service points for CVs spread across Kolkata. TML has also authorised LML to supply vehicles to the government organisations in the eastern region.

Credit challenges

Weak financial profile characterised by a highly leveraged capital structure and depressed coverage indicators – The capital structure of the company continued to remain leveraged, as depicted by a gearing of 8.04 times as on March 31, 2018 (provisional) compared to 7 times as on March 31, 2017. High debt levels coupled with low profitability kept the coverage indicators depressed as reflected by an interest coverage of 1.27 times, NCA/total debt of 2% and TD/OPBDITA of 8.57 during FY2018 (provisional).

Muted demand for the showroom-cum-real-estate project at Rajarhat – Ongoing slowdown in the commercial real-estate market in Kolkata and the lack of bookings till date expose the project to off-take risk and expected realisations. ICRA further notes that LML has significant debt repayment obligations, which are likely to keep its cash flows under pressure in the near to the medium term.

Inherently low margins due to industry dynamics and commission structure regulated by the principal – The operating profit margin of auto dealers, including LML, is inherently low due to the high-volume, low-margin business nature of the industry and intense competition among dealers. Besides, auto dealers are regulated by the OEM to a large extent, where the commission structure is decided by the principal, which also restricts the margin.

Exposed to the cyclicity of the industry – The company remains exposed to the inherent cyclicity of the Indian passenger as well as commercial vehicle industry.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)
[Automobile Dealerships](#)

About the company:

Incorporated in 1991, Lexus Motors Limited (LML) is involved in the business of automobile dealership and is an authorised dealer of Tata Motors Limited (TML). LML started its operations with light commercial vehicle and subsequently was given the franchise of multi-utility vehicles, medium and heavy commercial vehicles and passenger cars of TML. Since FY2011, LML also started dealing in models of Jaguar Land Rover (JLR) in arrangement with TML. LML is the sole dealer for the JLR segment in eastern India. The company is in the process of developing a showroom cum real estate project in Auto Hub, Rajarhat, Kolkata.

Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	693.78	721.67
PAT (Rs. crore)	1.23	1.21
OPBDIT/ OI (%)	2.59%	3.01%
RoCE (%)	11.46%	12.97%
Total Debt/ TNW (times)	7.00	8.04
Total Debt/ OPBDITA (times)	8.53	8.57
Interest Coverage (times)	1.27	1.27

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CRISIL Limited	Rating Suspended	February 6, 2013

Any other information: None

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY 2017	Date & Rating in FY2016
1	Cash Credit	30.00	-	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+
2	Cash Credit-(eDFS)	55.00	-	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+
3	Bank Guarantee	2.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4
4	Untied Limits	13.00	-	[ICRA]B+ (Stable) / [ICRA]A4	-	-	-

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	Cash Credit	-	-	-	30.00	[ICRA]B+ (Stable)
NA	Cash Credit- (eDFS)	-	-	-	55.00	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A4
NA	Untied Limits	-	-	-	13.00	[ICRA]B+ (Stable) / [ICRA]A4

Source: LML

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