

January 06, 2020

M.M.Vora Automobiles Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	10.00	24.50	[ICRA]B+(Stable); Reaffirmed
Fund-based PC/FBP/FBD	0.72	0.00	-
Unallocated	0.79	0.00	-
Total	11.51	24.50	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in M.M. Vora Automobiles Pvt. Ltd.'s (MMVAPL or the company) weak financial risk profile as evident from its low operating profitability, adverse capital structure, poor debt coverage indicators and high working capital intensive operations. The rating continues factor into account the intense competition faced by Mahindra & Mahindra Limited (M&M) from other established and new Original Equipment Manufacturers (OEMs) in the vicinity, and the susceptibility of MMVAPL's operations to any slowdown in the automobile industry.

The ratings, however, continue to favourably factor in the MMVAPL's long-standing relationship with its principal (M&M) and M&M's strong presence in the utility vehicle/sports utility vehicle (UV/SUV) segment. Additionally, the company benefits from the extensive experience of the promoters in the auto dealership business; the presence of MMVAPL's multiple showrooms in Gujarat (Vadodara, Anand and Nadiad); and its aligned servicing facilities.

The Stable outlook on [ICRA]B+ rating reflects ICRA's opinion that MMVAPL will continue to benefit from the established relationship with M&M and the extensive experience of the promoters in the auto dealership business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in auto dealership business – Promoted by the Vora family, which has been in the automobiles dealership business since 1932, M.M. Vora Automobiles Private Limited (MMVAPL) is an authorised vehicle dealer of Mahindra & Mahindra Limited. MMVAPL has its dealership network in Anand, Nadiad and Vadodara. Along with car sales, some of the showrooms also serve as servicing stations.

Dominant position of principal M&M in domestic PV (passenger vehicle) and UV (utility vehicle) segments - The top-four players in the automobiles industry—Maruti Suzuki, Hyundai, Mahindra and Mahindra and Tata Motors—accounted for 81.9% of the total domestic PV industry volumes in FY2019. M&M also has a dominant market share in the UV segment in India, with a market share of 25.0% in FY2019.

Credit challenges

Weak financial profile – The operating margin remained low, at 2.4% in FY2019 compared to 2.3% in FY2018, due to the dealership nature of the business. Consequently, the net margin stood weak at 0.1% because of high interest expenses in FY2019. Because of high working capital requirement and low net-worth of the company, the capital structure remained highly leveraged with a gearing of 23.2 times as on FY2019-end compared to 22.6 times as on FY2018-end. Further, low profitability coupled with high interest expenses and debt repayment obligations has weakened the coverage

indicators— TD/OPBDITA was 8.8 times (compared to 9.4 times in FY2018) and DSCR was 0.7 times (compared to 0.8 times in FY2018) in FY2019.

Intense competition among dealers of M&M and other OEMs – In Vadodara, MMVAPL’s faces competition from another M&M dealer—Carabel Motors (having 3S facility), which accounts for ~50% of the M&M Vehicle sales. Apart from that, the company faces competition from other four-wheeler OEMs. Further, the company’s operations are also susceptible to any prolonged slowdown in the automobile industry.

Liquidity position: Poor

MMVAPL’s liquidity position is poor with negative cash flow from operations and almost full utilisation of working capital limits along with high utilisation of inventory funding limits.

Rating sensitivities

Positive triggers – ICRA could upgrade MMVAPL’s ratings if the company demonstrates substantial growth in revenue and profitability, which leads to higher-than-expected cash accruals. Additionally, substantial equity infusion leading to increase in net worth, debt coverage indicators and liquidity on a sustained basis is a credit positive.

Negative triggers – Negative pressure on the company’s ratings could arise if revenue or profitability declines substantially, leading to inadequate cash accrual. Moreover, any higher-than-expected debt-funded capex or stretch in the working capital cycle that leads to deterioration in capital structure and liquidity could lead to rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Automobile Dealerships
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of M.M.Vora Automobiles Pvt. Ltd.

About the Firm

M.M. Vora Automobiles Private Limited (MMVAPL) is promoted and managed by the Vora family of Vadodara (Gujarat). At present, MMVAPL is involved in the automobile dealership of Mahindra & Mahindra Limited (M&M) and has showrooms and servicing facilities in Vadodara, Anand and Nadiad in Gujarat. Prior to becoming dealers for M&M, the promoters had varied business interest such as sale of spare parts, transportation business, and sub-dealership of Ford Motors & Lambretta Scooters.

In FY2019, the firm reported a net profit of Rs. 0.1 crore on an operating income of Rs. 216.9 crore, as compared to a net profit of Rs. 0.1 crore on an operating income of Rs. 193.8 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	193.8	216.9
PAT (Rs. crore)	0.1	0.1
OPBDIT/OI (%)	2.3%	2.4%
RoCE (%)	10.1%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	26.7	27.2
Total Debt/OPBDIT (times)	9.4	8.8
Interest Coverage (times)	1.2	1.3
DSCR	0.8	0.7

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
					06-Jan-2020	08-Oct-2018	10-Apr-2017	11-Apr-2016
1	Cash Credit	Long Term	24.50	-	[ICRA]B+ (Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
2	Term Loan	Long Term	-	-	-	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
3	Unallocated Limits	Long Term	-	-	-	[ICRA]B+(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 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	24.50	[ICRA]B+(Stable)

Source: M.M.Vora Automobiles Private Limited;

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