

March 20, 2020

## Bagga Link Motors Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loan	6.24	4.26	[ICRA]B+ (Stable); reaffirmed
Fund based - Cash Credit	9.40	9.40	[ICRA]B+ (Stable); reaffirmed
Unallocated/Long term	2.31	4.29	[ICRA]B+ (Stable); reaffirmed
Short Term - Fund Based	29.10	29.10	[ICRA]A4; reaffirmed
Short Term – Non-fund based	2.00	2.00	[ICRA]A4; reaffirmed
<b>Total</b>	<b>49.05</b>	<b>49.05</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation continues to derive comfort from the established market presence and reputed brand name of Bagga Link Motors Limited (BLML) as one of the first authorised dealers of Maruti Suzuki India Limited (MSIL) in the Delhi-NCR<sup>1</sup> region. The ratings continue to consider the strong brand recognition of its principal – MSIL – in India, and the continued market leadership of the same as the largest domestic passenger vehicle (PV) manufacturer.

The ratings, however, continue to be constrained by the company's subdued operating performance in the last two years. The trend continued in the current year, as reflected by the declining sales volumes. Nonetheless, ICRA favourably notes the increasing proportion of revenues from the sales of spares, accessories and service charges, which command relatively higher margins. This supports the company's profitability amid declining overall revenues. The ratings also take into account BLML's average financial risk profile characterised by high gearing levels, constrained liquidity position, and modest debt coverage indicators. Further, the ratings continue to consider the intense competition in the PV market and the company's weak bargaining power in the automobile dealership business, wherein pricing policies are decided by the principal original equipment manufacturer (OEM). Further, with four showrooms in Delhi, it remains exposed to event risks specific to the geography.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that BLML will continue to benefit from the extensive experience of its promoters and established market position of MSIL in India.

### Key rating drivers and their description

#### Credit strengths

**Long track record in automobile dealership business:** The company enjoys a strong market position as an authorised dealer of PVs for MSIL in Delhi. BLML has been an authorised dealer of MSIL's PVs since 1995 and is one of the first MSIL dealers in Delhi.

<sup>1</sup> NCR: The National Capital Region

**Strong brand recognition of MSIL in domestic PV industry:** The strong brand recognition of MSIL in India and its continued market leadership as the largest domestic PV manufacturer in the country augurs well for BLML.

## Credit challenges

**Sluggish demand outlook situation for PV segment in near term:** The automobile segment has witnessed a steep decline in demand in FY2020 with the Indian PV industry recording a 16.4% YoY decrease in sales volumes for 9M FY2020. Accordingly, BLML's operating performance has remained weak in 9M FY2020. The company's car sales volumes have declined by 12.7% YoY in 9M FY2020 compared to the corresponding year-ago period. The significant decline in sales volumes in the PV segment can be attributed to the subdued consumer sentiments and prevalent adverse economic scenario, apart from other region-specific issues. The demand outlook for the PV segment is expected to continue being sluggish in the near future.

**Average financial risk profile:** The company's financial profile remains average, as is evident from its leveraged capital structure, given the substantial dependence on external borrowings to fund the working capital requirements. In addition, its liquidity position remains stretched as reflected by a lower cushion on undrawn working capital limits and heavy repayment obligations going forward. In addition, the coverage indicators have remained average with interest coverage of 1.25 times and TD/OPBDITA of 6.33 times in 9M FY2020.

**Susceptibility to supplier and geographical-concentration risks mitigated by market leadership status of MSIL:** BLML's operations are mainly concentrated in Delhi, which exposes it to geographical-concentration risk as new dealerships of MSIL or other auto players may impact the overall sales. Furthermore, the entire revenue of the company is derived from a single OEM, i.e. MSIL. This leads to limited bargaining power and dependency on the growth plans of the principal.

**Thin profit margins owing to dealership nature of operations and intense competition from other automobile dealers:** As is inherent in the automobile-dealership business, with the commission structure decided by the principal, the profit margins remain thin for BLML. In addition, intense competition in the Delhi/NCR region owing to the presence of other MSIL dealers and other OEMs exerts pressures on the sales volumes and margins of the company.

**Exposure to adverse event risk specific to the area:** The company's showrooms are located in various parts of Delhi, which exposes it to regulatory risks and adverse event risk specific to the mentioned region. With high concentration of sales in the Delhi region, any weakening of the region's economy or any regulatory change is likely to adversely impact BLML's revenues. The company's Vasant Kunj outlet has remained closed since FY2019 due to the sealing drive in Delhi, putting further pressure on the company's volumes and profitability.

## Liquidity position: Stretched

BLML's liquidity position is **stretched**. The company has limited cushion in the form of undrawn working capital limits as evident from the near-full utilisation of its limits. In addition, the company has high debt obligations over the next three years, which are likely to stretch the liquidity position.

## Rating sensitivities

**Positive triggers:** ICRA could upgrade the rating if there is recovery in demand which results in improved turnover and sustained growth in accruals along with better working capital management, thereby improving liquidity and an improvement in the overall credit metrics.

**Negative triggers:** Negative pressure on BLML's rating could arise if there is any sustained decline of revenues or profitability or increase in inventory levels impacts liquidity position and debt metrics. Negative pressure could also arise from any adverse performance of its principal OEM — MSIL — affecting scale and profitability of the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Automobile Dealership Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer

## About the company

Bagga Link Motors Limited (BLML) commenced its operations as a partnership firm (Bagga Link Road Service Station) in 1962 as a service station for cars of all makes. Subsequently, it received the dealership of MSIL vehicles in 1995. In the same year, a private limited company was incorporated named Bagga Link Motors Limited, which took over the dealership business of Bagga Link Road Service Station. BLML is one of the oldest MSIL dealers in Delhi. It sells vehicles, spares and also provides after-sales support. At present, the company has four showrooms and five workshops in Delhi.

### Key financial indicators (audited)

	<b>FY2018</b>	<b>FY2019</b>	<b>9MFY2020</b>
Operating Income (Rs. crore)	329.88	279.35	184.54
PAT (Rs. crore)	0.11	0.11	0.08
OPBDIT/OI (%)	2.54%	2.94%	2.96%
RoCE (%)	10.71%	10.47%	10.31%
Total Outside Liabilities/Tangible Net Worth (times)	6.32	5.74	5.33
Total Debt/OPBDIT (times)	6.80	6.26	6.33
Interest Coverage (times)	1.29	1.26	1.25
DSCR	0.96	0.98	0.84

Source: Financial statements of BLML; ICRA research; 9MFY2020 figures are provisional

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

**Any other information: None**

### Rating history for past three years

SNo	Name of Instrument	Type	Current Rating (FY2020)				Chronology of Rating History for the Past 3 years			
			Rated amount	Amount outstanding	Month-year & Rating		Month- year and Rating in			
			(Rs. crore)		March 20, 2020	June 3, 2019	FY2019	FY2018	FY2017	
						February 28, 2019	April 5, 2018	-	March 31, 2017	
1	Term Loan	Long Term	4.26	4.26	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]D	[ICRA]BB(Stable)	-	[ICRA]BB(Stable)
2	Cash Credit	Long Term	9.40	-	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]D	[ICRA]BB(Stable)	-	[ICRA]BB(Stable)
3	Unallocated	Long Term	4.29	-	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]D	[ICRA]BB(Stable)	-	[ICRA]BB(Stable)
4	Inventory Funding	Short Term	29.10	-	[ICRA]A4	[ICRA]A4	[ICRA]D	[ICRA]A4+	-	[ICRA]A4+
5	Non fund based	Short Term	2.00	-	[ICRA]A4	[ICRA]A4	[ICRA]D	[ICRA]A4+	-	[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](http://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
-	Term Loan	2014	-	2021	4.26	[ICRA]B+ (Stable)
-	Cash Credit	2014	-	-	9.40	[ICRA]B+ (Stable)
-	Unallocated	-	-	-	4.29	[ICRA]B+ (Stable)
-	Inventory Funding	2014	-	-	29.10	[ICRA]A4
-	Letter of Credit	2014	-	-	2.00	[ICRA]A4

Source: BLML

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

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