Fairdeal Motors And Workshop Private Limited (Revised)

September 02,2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	58.20	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	45.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	**103.20 (₹ One Hundred Three Crore and Twenty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned/reaffirmed to the bank facilities of Fairdeal Motors and Workshop Private Limited (FMPL) continues to be constrained by the low profitability margins coupled with stretched solvency and debt coverage indicators. The ratings are further constrained by the pricing constraints and susceptibility to intense competition from other dealers in the region. The ratings, however, derive strength from the experienced promoters and the management, established track record of operations and their long-standing relationship with Tata Motors Limited (TML) as a dealer of their vehicles.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Steady scale-up of operations with PBILDT margins improving to above 5%.
- Improvement in the solvency ratio with overall gearing ratio of below unity

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant decline in the scale of operations or PBILDT margins falling below ~1.50%.
- Deterioration in the solvency position with total debt to PBILDT above 11 times owing to increased working capital dependence.

Detailed description of the key rating drivers

<u>Key rating weaknesses</u>

Low profitability margins

The profitability margins of the company continued to remain low mainly due to the trading nature of operations coupled with limited pricing power as the same is fixed by Tata Motors Limited (TML). The PBILDT margins declined to 1.64% in FY22 (Prov.) from 1.83% in FY20. The decline in the profitability margins was due to expansion of outlets during the financial year and overall slowdown in the auto industry. Company has added 7-8 new outlets during FY22 where revenue is yet to be picked up. However, revenue from operation of company has improved by 22.56% during FY22 as compared to FY21.

Moderate Solvency position and debt Coverage Indicators:

The debt profile of the company slightly improved in FY22 on account of lower utilisation of working capital limits on balance sheet date. Further, company has availed GECL of Rs 8.20 crores in line of RBI guidelines in light of Covid-19 for its working capital requirements repayment of which has been started during the current financial year. As a result, overall gearing ratio has been slightly improved to 3.02x as on March 31, 2022(Prov.) from 4.26x on March 31, 2021. Interest Coverage ratio, however, declined to 1.15x in FY22 (Prov.) on account of rise in the interest expenses from Rs. 4.25 crores in FY21 to Rs. 7.70 crores in FY22(Prov.). as there was lower utilisation of Working capital finance during first half of FY21 due to lockdown in H1'FY21 to control spread of COVID coupled with disruption in business. Further, During FY21, company has also received interest subventions from lenders in line with RBI guidelines. Total debt to GCA ratio deteriorated from 33.82x as on March 31, 2021, to 41.62x as on March 31, 2022 (Prov), on account of lower cash accruals of Rs. 2.10 crores during FY22 as compared to Rs 3.58 crores during FY21.

Limited bargaining power with principal automobile manufacturer

The company's business model is largely in the nature of trading wherein profitability margins are very thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer (TML). The margin on products is set at a particular level by the principal manufacturer thereby restricting the company to earn incremental income.

Intense competition in the industry

Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Maruti Suzuki India Limited, Tata Motors, Hyundai, Honda, Toyota etc. in the passenger vehicle segment and Tata Motors,

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Ashok Leyland, Eicher Motors, Daimler India Commercial Vehicles, etc in the commercial vehicle segment. The performance of FMPL is linked to the growth of TML and how it faces competition from the other auto manufacturers. Apart from competition from the dealerships of other brand vehicles, FMPL also faces direct competition from the other TML dealerships in the regions where it has presence.

Key rating strengths

Experienced promoters and management

FMPL was promoted by Mr Bakshi Bashir Ahmed and his wife Mrs Yasmin Bakshi in the year 1971. The company is presently headed by their son Mr Saleem Bakshi (Managing Director) who is an automobile engineer and is accompanied by experienced and a professional team in their respective fields. The management has combined experience of more than 2 decades in the industry. Further, the promoters of the company are assisted by a team of professionals who are highly experienced in their respective domains.

Established track record of operations and long association with TML

The promoters of FMPL enjoy long-standing association with TML since early 1960s when the promoter, Mr Bakshi Bashir Ahmed, was managing the business through a proprietary concern in the name of Fairdeal Motors, as an authorized dealer of TML. FMPL was initially engaged in running the workshop centre for servicing of the vehicles. The company took over the dealership business from the above proprietary firm in the year 2000. FMPL deals in diverse products of TML in both PV and CV (light, medium and heavy) segments. During the current financial year till July 22 company has booked revenue of Rs 196 crores.

Liquidity: Stretched

FMPL's liquidity position remained stretched due to higher utilisation of WC limits of Rs 95 crores and extension of Adhoc limit of Rs 7.5 crores during the month of June 22. Overall Working capital utilisation remains around 61.19% during last 12 months ending June 30,2022. Moreover, company has also availed COVID loan in line of guidelines of RBI during FY 2020-21 of Rs 8.20 crores to meet their working capital requirement repayment of which has been already started which will be meet from projected GCA of Rs. ~3 crores.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Dealerships

About the company

Incorporated on July 31, 1971, Fairdeal Motors & Workshop Pvt. Ltd. (FMPL) is an authorized dealer of Tata Motors Limited (TML; rated 'CARE AA-; Stable/CARE A1+') operating in the state of Jammu and Kashmir. The company is engaged in the sale of commercial vehicles (CV) and passenger vehicles (PV), servicing of vehicles and sale of spare parts. The company operates three showrooms, providing 3S (sales, service and spare parts) facilities. Apart from that, the company has eleven 1S (sales) showrooms and one 1S (service) facility in different parts of Jammu and Kashmir.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (P)	July 31,2022 (P)
Total operating income	562.02	441.52	541.17	196.00
PBILDT	16.66	8.08	8.86	NA
PAT	3.05	2.16	0.54	NA
Overall gearing (times)	1.43	4.26	3.02	NA
Interest coverage (times)	1.62	1.90	1.15	NA

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL has reviewed and retained the rating of CARE B+; Stable; Issuer Not Co-operating based on best available information dated February 17,2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	March 2025	8.20	CARE BB+; Stable
Fund-based - ST-Vendor financing		-	-	-	45.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Feb-22) 2)CARE BB+; Stable (26-Aug-21) 3)CARE BB+; Stable; ISSUER NOT COOPERATING* (17-May-21)	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (19-Feb-20) 2)CARE BBB; Negative (24-Sep-19)
2	Fund-based - LT-Term Loan	LT	8.20	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Feb-22) 2)CARE BB+; Stable (26-Aug-21)	-	-
3	Fund-based - ST-Vendor financing	ST	45.00	CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Vendor Financing	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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