Hoshiarpur Automobiles

December 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.34	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	4.66	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Assigned
Total Bank Facilities	**50.00 (₹ Fifty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Rating assigned to the bank facilities of Hoshiarpur Automobiles (HA) is primarily constrained on account of modest scale of operations, low profitability margins, leveraged capital structure and weak debt coverage indicators. The ratings, further remain constrained on account of pricing constraints and margin pressure arising out of high level of competition cyclical nature of the auto industry and constitution of the entity being a Partnership Firm. However, the rating derives comfort from experienced partners coupled with long track record of operation, benefit from long standing relationship with MSIL and moderate operating cycle.

Rating Sensitivities

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

- Improvement in scale of operations of Rs.425.00 crore and above over the medium term on sustained basis.
- Improvement in capital structure marked by overall gearing ratio below 2.00x on a sustained basis.

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

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.75x.
- Decline in profitability margins as marked by PBILDT margins below 3.00%.
- Elongation of operating cycle beyond 60 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

HA's scale of operations remains modest as marked by total operating income of Rs. 268.54 crore and gross cash accruals of Rs. 6.98 crore respectively, during FY22 (Audited), as against Rs. 202.49 crore and Rs. 5.00 crore respectively in FY21 (FY refers to the period April 1 to March 31). Improvement in scale of operation is primarily due to higher number of vehicles sold in FY22. Nevertheless, the scale remains modest, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. In 7MFY23, the firm has achieved total operating income of Rs. 158.44 crore which comprises a healthy mix of revenue from sales of new cars (65.64%), sale of used cars under Maruti's True Value stores (8.48%), sale of spares and accessories around (9.47%) and other revenue which comprises servicing and commission income etc (16.42%). Further, the firm is expecting to achieve Rs. 300 crores during FY23 backed by healthy demand in the industry.

Low profitability margins and weak debt coverage indicators

The firm's profitability margins have been historically on the lower side owing to limited negotiating power with manufacturers and has no control over the selling price as the same is fixed by the manufacturers. The firm reported profitability margin as marked by PBILDT and PAT ratio of 3.18% and 1.26% in FY22 as against 3.85% and 1.11% in FY21. The decline in margin is on account of heavy discount provided to its customers due to intense competition from other auto dealers. Further, in 7MFY23 profitability margins as marked by PBILDT and PAT ratio stood at 4.27% and 0.82% respectively. The margins are expected to improve over near to medium term as envisaged as firm focus on increasing the share of service revenue coupled with lower discount offered to the customers in FY23.

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

Further, owing to low profitability levels leading to low gross cash accruals, the debt coverage indicators remain weak as marked by interest coverage ratio and total debt to GCA ratio which stood at 1.64x and 8.32x respectively in FY22. The Debt coverage indicators are expected to remain weak over the medium term on account of low profitability levels.

Leveraged capital structure

As on March 31, 2022, the debt profile of the firm comprises term debt of Rs. 22.98 crore, unsecured loan from related parties of Rs. 0.28 crore and working capital bank borrowings of Rs. 34.86 crore. The capital structure of the firm stood leveraged as marked by overall gearing ratio of 2.72x as on March 31, 2022 as against 2.48x as on March 31, 2021. The overall gearing has marginally deteriorated on account of higher utilisation of working capital borrowing as balance sheet date March 31, 2022. Capital structure is expected to remain leveraged over the medium term though, on account of high debt levels.

Pricing constraints and margin pressure arising out of high level of competition

Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Maruti Suzuki India Limited (MSIL), Tata Motors, Hyundai, Honda, Toyota etc. in the passenger vehicle segment. HA's operations are geographically restricted to Punjab. Original Equipment Manufacturers (OEMs) are also encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Entry of the global OEMs in the Indian market has further intensified the competition. Hence, dealers have to offer various discount schemes to attract customers and capture market share. Dealers' fate is also linked to the industry scenario and performance of OEMs. HA's prospects are governed directly by the performance of MSIL. Any downturn in its performance of OEM will directly affect the financial and operating performance of HA.

Cyclical nature of the auto industry

The automotive sector is dependent on economic growth, credit conditions and consumer confidence. The auto industry is inherently vulnerable to economic cycles and is highly sensitive to interest rates and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Fuel prices have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The policies implemented by the government also have a direct bearing on the sale of passenger vehicles.

Constitution of the entity being a Partnership Firm

HA constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent.

Key Rating Strengths

Experienced promoters coupled with long track record of operation

Established in 1980, Hoshiarpur Automobiles (HA) based at Singriwala (Dist. Hoshiarpur) is a partnership firm. The day to day operations of the firm are managed by partners Mr. Gurpreet Singh along with Mr. Iqbal Singh. Mr. Iqbal Singh is graduates by qualification and holds experience of around four decades in the similar line of business. He is also engaged in agricultural activities and owns a petrol pump 'Iqbal Filling Station' in Garhshanker, Dist. Hoshiarpur. Mr. Gurpreet Singh, son of late Sh. Ajvinder Singh is post graduate (MBA) from London. He holds experience of more than a decade in the similar field. Partners of the firm have inherited business knowledge and acumen in automobile segment as family inheritance. The Promoters have adequate acumen about various aspects of business which is likely to benefit HA in the long run.

Benefit from long standing relationship with MSIL

Hoshiarpur Automobiles (HA) is engaged in automobile dealership for more than four decades and has a long-standing association with its principal Maruti Suzuki India Limited (MSIL). Over the years, HA has established its presence in Punjab as depicted by ~25 showrooms in the state. The firm sells all the models and variants that are being introduced by the manufacturers through ARENA and NEXA channels of MSIL along with one showroom for True Value and commercial vehicles of MSIL.

Moderate operating cycle

The operating cycle of the firm has marginally improved though remain moderate as marked by 42 days in FY22 as against 45 days in FY21. Marginal improvement in operating cycle is on account of improvement in inventory period. The firm is required to stock different models of vehicles and spares in the showrooms in order to ensure adequate availability and visibility leading to low inventory days. The average inventory holding days of the firm stood at 21 days for FY22. To comply with the industry standards, the firm provides credit period to its customers of around a month. The same results in a collection period of around

26 days for FY22. Further, the firm procures passenger cars by making full advance payment to OEM. The average utilization of the working capital limits remains around 95% for the past 12 months period ending October, 2022.

Liquidity: Stretched
The liquidity position of the firm remains stretched characterized by tightly matched gross cash accruals vis-à-vis repayment obligations. The firm has reported gross cash accruals of Rs. 6.98 crore and Rs. 2.82 crore during FY22 and 7MFY22 respectively, and is expecting to generate envisage GCA of Rs. 7.10 crore for FY23 against repayment obligations of Rs. 6.76 crore in same year. Further, working capital limits remain utilised around 95% for the past 12 month's period ending October 31, 2022. The firm had low free cash and bank balance of Rs. 0.44 crore as on March 31, 2022. Further, the firm has liquid investments of Rs. 3.66 crore as on March 31, 2022.

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
Short Term Instruments
Service Sector Companies
Auto Dealerships

About the Firm
Established in 1980, Singriwala (Dist. Hoshiarpur) based Hoshiarpur Automobiles (HA) is a partnership firm. The firm is an authorized dealer for the sale of passenger vehicles of Maruti Suzuki India Ltd. (MSIL). Initially, the firm was set up by late Sh. Ajvinder Singh and Mr. Iqbal Singh. Later on, after sudden demise of the former partner, his son Mr. Gurpreet Singh along with Mr. Iqbal Singh is currently managing the operations of the firm. The firm has 25 showrooms of Maruti Arena and Nexa and True Value located in Dasuya, Garhshankar, Khanna, Machhiwara, Mahilpur, Mukerian, Mandigobindgarh, Singriwala, Talwara, Tanda, Chunni Kalan, Sirhind, Khamano, Ludhiana, Samrala, MACHHIWARA in Punjab. The firm also has one commercial vehicle (MSIL) showroom in Hoshiarpur district. The firm provides 3s facility (Sales, Spares and Service) and also runs true value stores and one driving school in Hoshiarpur.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	7MFY23 (Prov.) *
Total operating income	202.49	268.54	158.44
PBILDT	7.79	8.55	6.77
PAT	2.25	3.37	1.30
Overall gearing (times)	2.48	2.72	NA
Interest coverage (times)	1.99	1.64	NA

A: Audited; NA: Not Available; Prov.: Provisional
**refers to the period from April 1, 2022 to October 31, 2022.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	17.00	CARE BB+; Stable
Fund-based - LT-Electronic Dealer Financing Scheme		-	-	-	17.60	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	March 2026	10.74	CARE BB+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	2.41	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.25	CARE BB+; Stable / 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	17.00	CARE BB+; Stable				
2	Fund-based - LT-Term Loan	LT	10.74	CARE BB+; Stable				
3	Fund-based - LT-Electronic Dealer Financing Scheme	LT	17.60	CARE BB+; Stable				
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.25	CARE BB+; Stable / CARE A4+				
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	2.41	CARE BB+; Stable / 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-Electronic Dealer Financing Scheme	Simple
3	Fund-based - LT-Term Loan	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
5	Non-fund-based - LT/ ST-Bank Guarantee	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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About us:
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