

Dhru Motors

January 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.79 (Reduced from 4.63)	CARE B; Stable (Single B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	32.37	CARE B; Stable / CARE A4 (Single B; Outlook: Stable/ A Four)	Reaffirmed
Total Bank Facilities	35.16 (₹ Thirty-Five Crore and Sixteen Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Dhru Motors (DM) continues to remain constrained on account of moderate scale of operations during FY22 and H1FY23, thin profitability in a highly competitive and cyclical automobile dealership industry, its high reliance on bank borrowings to fund working capital requirements, leveraged capital structure and weak debt coverage indicators, stretched liquidity and risk associated with the partnership nature of its constitution. The ratings, however, continue to favourably factor in experience of its partners in automobile dealership industry and authorized dealership of a reputed automobile brand.

Rating sensitivities

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

- Volume driven growth in scale of operations along with improvement in operating profitability (PBILDT margin) beyond 3% on a sustained basis
- Improvement in overall gearing to below 2.00x on a long-term basis with reduced reliance on external borrowings to fund working capital requirements

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

- Continuation of weak demand scenario for passenger vehicles leading to sizeable decline in operating profitability (PBILDT margin) below 1.50% on a sustained basis
- Deterioration in liquidity with continued reliance on bank borrowings to fund working capital requirements
- Further increase in inventory holding or any major write-off of outstanding inventoryAny major withdrawal or non-timely infusion of requisite unsecured loans by promoters, impacting the liquidity.

Detailed description of the key rating drivers

Key rating weaknesses

Moderate scale of operations and thin profitability

During FY22, DM's TOI increased by 17.32% y-o-y to Rs.130.66 crore, largely on account of increase in sales volumes of its products and income from stores and spares, reflecting the revival of demand for passenger vehicles (PVs) in the domestic market. DM's PBILDT margin improved to 1.26% in FY22 as compared to 0.50% in FY21, with increase in scale of operations, however continues to remain thin primarily on account of intense competition and trading nature of automobile dealership business. Increase in TOI along with better but thin operating margins resulted into net profit of Rs.0.64 crore in FY22 as compared to loss of Rs.0.77 cr in FY21. Further, company reported TOI of Rs.68.59 cr. during H1FY23.

Auditor's remarks regarding non-availability of cash on hand for verification

DM had an outstanding balance of Rs.5.58 crore towards cash on hand as on March 31, 2022 as against Rs.6.28 crore as on March 31, 2021. The auditor, in its remarks as a part of the FY22 financials, has stated that the management has certified the outstanding balance of cash on hand as on March 31, 2022, however, the same has not been made available to the auditor for verification.

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

However, as per feedback provided by Auditor dated December 12, 2022, Dhru Motors has fully deposited cash in the bank accounts.

Leveraged capital structure and weak debt coverage indicators

DM's capital structure remained leveraged marked by an overall gearing ratio of 3.89x as on March 31, 2022 (6.70x as on March 31, 2021). The debt profile of the firm majorly comprised working capital borrowings (in form of cash credit, inventory funding and trade advance) which stood at Rs.23.29 crore as on March 31, 2022.

DM's debt coverage indicators remained weak, marked by an interest coverage ratio of 1.18x during FY22 (0.28x during FY20) and total debt / GCA of 16.56x as on March 31, 2020 (91.70x as on March 31, 2020). It improved largely on account of better cash accruals following increase in TOI as well as profitability.

Presence in a highly competitive auto dealership business

DM faces aggressive competition in a fragmented automobile industry on account of established presence of other automobile manufacturers. Further, the profitability of the dealerships is limited as the prices are set at a particular level by the principal and dealers are not allowed pricing flexibility beyond a marginal extent (which also takes care of inter-dealer competition in the market, sometimes in the same city). Also, the fortunes of an automobile dealer rest on the performance of the principal and the acceptability of its products in the market.

Close linkages to cyclical automobile industry

The automobile industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates as well as availability of credit.

Partnership nature of its constitution

DM's constitution as a partnership firm restricts its overall financial flexibility in terms of limited access to external funds for business requirements. Further, there is inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of partner. However, we have seen partners have infused funds of around Rs.2 cr in FY22 and as per undertaking submitted by partners, they have infused funds of Rs.0.92 cr in current year and will infuse additional Rs.1.50 cr by March 2023.

Key rating strengths

Experienced partners

The partners of DM, Mr. Nayan Intwala and Mrs. Nisha Intwala possesses around two decades of experience in the automobile dealership business. They collectively look after the overall operations of the firm. The partners are assisted by experienced professionals in managing daily operations of the firm.

Authorized dealer of reputed automobile brand, Maruti Suzuki India Limited

DM is an authorized dealer of Maruti Suzuki India Limited (MSIL). MSIL is the market leader in the India's passenger car industry with around 50% market share in overall passenger car sales. MSIL currently has 17 models with over 150 variants across segments. These include (i) the mini segment: Alto and S-Presso; (ii) the B (compact) segment: Wagon R, Swift, Celerio, Ignis, Dzire, and Baleno; (iii) C (super compact) segment: Tour S; (iv) the D (mid-sized) segment: Ciaz; (v) the vans segment: Eco; (vi) the SUV segment: Gypsy, Ertiga, S-Cross, Brezza & XL6; and (vii) the LCV segment: Super Carry.

Liquidity: Stretched

DM's liquidity remains stretched marked by almost full utilization of its fund based working capital limits at around 90% for the trailing 12 months ended November 2022, largely on account of its sizeable inventory holding which it needs to keep to readily serve its customers as well as to avail quantity discount from the principal and low free cash and bank balance of Rs.0.06 crore as on March 31, 2022 (Rs.0.46 crore in FY21)

During FY22, DM's operating cycle remained moderate at 36 days in FY22 (42 days in FY21), with some improvement on account of low inventory holding as at FY22 end. Further, firm's scheduled debt repayments over the next years are sizeable against its cash accrual generation, making the firm dependent upon additional fund infusion by promoters to meet the requirements.

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](#)

[Wholesale Trading](#)

About the Firm

Surat based Dhru Motors (DM) is a partnership firm established by Mr. Nayan Intwala and Mrs. Nisha Intwala in 1996. The firm is an authorised dealer for the passenger as well as commercial vehicles of Maruti Suzuki India Limited. The firm operates six showrooms (two under Maruti Arena; one under Truevalue, one under Nexa, one for commercial vehicle and one Maruti Driving School) in an around Surat in Gujarat along with three authorized service centres.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	111.38	130.66	68.59
PBILDT	0.56	1.64	2.39
PAT	-0.77	0.64	1.07
Overall gearing (times)	6.70	3.89	4.39
Interest coverage (times)	0.28	1.18	2.72

A: Audited, Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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 firm: 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-Working capital Term Loan		-	-	September 2024	2.79	CARE B; Stable
Fund-based-LT/ST		-	-	-	32.37	CARE B; 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/ST	LT/ST*	32.37	CARE B; Stable / CARE A4	-	1)CARE B; Stable / CARE A4 (31-Jan-22)	1)CARE B; Stable / CARE A4 (15-Feb-21)	1)CARE B; Stable / CARE A4 (11-Feb-20) 2)CARE BB; Stable / CARE A4+ (04-Apr-19)
2	Fund-based - LT-Working capital Term Loan	LT	2.79	CARE B; Stable	-	1)CARE B; Stable (31-Jan-22)	1)CARE B; Stable (15-Feb-21)	-

*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 firm

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working capital Term Loan	Simple
2	Fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this firm

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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