Asthavinayak Motors Private Limited

November 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.25	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.25	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**17.50 (₹ Seventeen Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Asthavinayak Motors Private Limited (AMPL) is constrained by its limited profitability associated with dealership business, working capital intensive nature of operations, leveraged capital structure with low net worth base, pricing constraints and margin pressure arising due to intense competition, dependency on fortunes of principal (i.e., TATA Motors Ltd) with low bargaining power and cyclicality associated with the automobile industry. However, the aforesaid constraints are partially offset by its experienced promoters & established track record of operations in automobile dealership business, stable and improving performance over the last 3 years.

Rating sensitivities

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

- Improvement in overall gearing below 1.5x and Total debt/GCA below 12x on a consistent basis.

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

- Any further deterioration in Capital structure and total debt/GCA beyond current levels on a consistent basis.
- Any further increase in operating cycle above the current level on consistent basis.
- Decline in total operating income below Rs.180 crore on a sustained basis.
- Discontinuance of dealership with Tata Motors Limited.

Detailed description of the key rating drivers

Key rating weaknesses

Limited profitability associated with dealership business

Automobile dealership is a volume driven business as margins on vehicles and spares are controlled by automobile manufacturers. Accordingly, due to limited pricing power of the company, profitability levels and margins are estimated to continue to remain on the lower side going ahead. Hence the company's growth prospects depend on the ability to increase its volume momentum and capitalize on the spares fetching higher margin and service segment.

PBILDT margin stood at 2.91% (FY21: 1.95%) and PAT margin of 0.14% (FY21: 0.27%) in FY22. In FY22, the company earned GCA of Rs. 0.82 crore.

Working capital intensive nature of operations:

The company's operating cycle has increased to 71 days (30-50 days over the past three fiscals) during FY22 majorly owing to increase in inventory to meet demand for the two new segments of 'ILCV trucks' and 'Winger'. Also, in FY21, the operating cycle days decreased to 37 days on account of liquidation of BSIV compliant inventory before introduction of BSVI norms due to reduction in inventory holding. However, the operating cycle has now increased to 71 days, and it is expected to remain above 50 days due to build-up of BSVI compliant inventory.

Leveraged capital structure with low net worth base

The capital structure of the company has remained leveraged and marked by overall gearing ratio of 7.35x in FY22 as against 6.28x in FY21 majorly on account of increase in working capital utilisation and GECL loan. However, the same is on account of increase in inventory, given that two new segments of 'ILCV Truck' and 'Winger buses' has been added in the product list of the

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

company, and the company required to build inventory for the same. Also, higher leverage is on account of company utilizing mainly in channel financing facility wherein they receive 100% funding coupled with low net worth base of Rs. 7.09 crore as on Mar 31, 2022. The debt coverage indicators have deteriorated due to increase in overall debt which is marked by total debt to GCA of 63.90x (38.60x as on Mar 31, 2021) as on Mar 31, 2022.

Pricing constraints and margin pressure arising due to intense competition
The base prices for all the commercial vehicles are fixed by the OEM's. The dealers have very little leeway to enable and get incremental profits. AMPL has to resort to offering better buying terms like allowing discounts on purchases or giving freebies to capture market share in a competitive market. Such discounts create margin pressure and negatively impact the earning capacity of the company. The presence of various OEM's like Mahindra, Bharat Benz, etc. in the market has further intensified the competition. Due to high competition in the industry, dealers are also forced to pass on discounts and exchange schemes to attract customers which restrict their margins. As articulated by management, the company holds around 60%- 65% market share in the 6 districts where they are the exclusive dealers for TATA Motors.

Dependency on fortunes of principal with low bargaining power
The business model of AMPL is in the nature of trading with thin margins. Dealers lack bargaining power due to its dependence on such large principals that set policies, targets and link incentive-based income to satisfactory compliance of such policies. The company is exposed to the risk of change in policy by the principal with regards to the dealership.

Cyclicality associated with the automobile industry
The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the movement in 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. Coupled with this the entry of many global manufacturers has altered the market equation making it a highly challenging business. The company thus faces significant risks associated with the dynamics of the auto industry.

Key rating strengths
Experienced promoters & established track record of operations in Automobile dealership business
AMPL, incorporated in February 25, 2008, is an authorized dealer of Tata Motors Ltd for sale of Medium (MCV) & Heavy Commercial vehicles (HCV). The company commenced its operations in 2016 with its owned showroom in Chatrapur and Bhubaneswar providing 3s (sales, service, spare-parts) facilities. The company is exclusive dealer of Heavy & Medium CVs (Cargo & Construct vehicles) in 6 districts (Khurda, Nayagarh, Puri, Ganjam, Gajapati & Kandhamal district) of Odisha. Moreover, given their performance, TML has authorized them to sell in Paradeep, Cuttack & Kendrapara districts of Odisha as a second dealer from October 2020. The promoters, Mr Rakesh Kumar Agrawal and Anil Kumar Jhajharia, have experience in automobile dealership business with TATA (Tata Motors Ltd) based in Odisha.

Stable and improving performance over the past few years
The company's total operating income (TOI) has increased from Rs.115.17 crore in FY18 to Rs.227.87 crore in FY22 mainly due to higher sales realization especially after introduction of higher priced BS VI compliant vehicles. However, the TOI in FY22 has remained stable when compared to FY21.
The management expects to improve sales in FY23 due to addition of 2 new segment of transport vehicles, ILCV Truck and Winger buses in their product list.

Liquidity-Adequate
The liquidity position of the company is adequate marked by low average utilization of fund-based limit of 23% for the past 12 months as on October 28, 2022. The current ratio of the company is moderate at 1.14x 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
Wholesale Trading

About the company

Asthavinayak Motors Private Limited, incorporated in February 25, 2008, is an authorized dealer of Tata Motors Ltd (CARE AA-; Stable / CARE A1+) for sale of Medium (MCV) & Heavy Commercial vehicles (HCV). The company commenced its operation in 2016 with its owned showroom in Chatrapur and Bhubaneshwar providing 3S (sales, service & spare parts) facilities and sales office in Bhubaneswar & Nayagarh. The company is exclusive dealer for Khurda, Nayagarh, Puri, Ganjam, Gajapati and Kandhamal districts of Odisha and second dealer in the district of Paradeep, Cuttack & Kendrapara since October, 2020 for TML. The company is managed by Rakesh Kumar Agrawal and Anil kumar Jhajharia who has experience in the dealership business.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	228.08	227.87	NA
PBILDT	4.46	6.64	NA
PAT	0.62	0.33	NA
Overall gearing (times)	6.28	7.35	NA
Interest coverage (times)	1.36	1.14	NA

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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 (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		-	-	-	17.25	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.25	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	17.25	CARE BB+; Stable	-	1)CARE BB+; Stable (02-Nov-21)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	0.25	CARE A4+	-	1)CARE A4+ (02-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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	Non-fund-based - 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gopal Pansari
Phone: 9331331422
E-mail: gopal.pansari@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@careedge.in

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