Frostees India Private Limited

December 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	88.29 (Reduced from 90.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	10.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	**98.29 (₹ Ninety-Eight Crore and Twenty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Frostees India Private Limited (FIPL) continue to derive strength from established track record, diversified revenue streams, satisfactory financial performance and satisfactory operating cycle. However, rating strengths are partially offset by leveraged capital structure and moderate debt protection metrices, restricted bargaining power with Original Equipment Manufacturer (OEM) with its fortunes linked with growth plans of OEM, limited geographical presence and inherent competition and cyclical nature of auto industry.

Rating Sensitivities

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

- Improvement in operating margins above 4% while maintaining the growth in scale of operation on a sustained basis.
- Improvement in capital structure with overall gearing below 1.50x.

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

- Decline in scale of operations below Rs.350 crore and PBILDT margins below 3% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 4.0x.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record

FIPL is engaged in automobile dealership business since last 1997. Over the years FIPL has increased its presence in West Bengal and Assam. It operates service stations, sells spare parts, and also has tie-ups for vehicle finance and insurance. This allows it to provide a comprehensive range of services to the customer at a single point.

Diversified revenue streams

The company has diversified revenue streams namely revenue from sale of vehicles, export of electronic products, sale of spare parts & service charges and course fees from vocational training. In FY22, sale of vehicles, export of electronic products, sale of spare parts & service charges and course fees from vocational training contributed 63%, 18%, 11% and 3% to the revenue, respectively.

Satisfactory financial performance

Financial performance of the company witnessed improvement in the last three financial years marked by increase in scale of operation and profitability levels attributable to new line of revenue source i.e. export of mobile phones and increase in the sales price of vehicles. Increase in scale of operation and largely range bound operating margins led to increase in profitability levels. This apart, higher PBILDT level coupled with decline in capital charges resulted in improvement in profit after tax (PAT) margins to 0.98% in FY22 from 0.39% in FY20. Accordingly, gross cash accruals (GCA) of the company nearly doubled to around Rs.7.80 crore in FY22 from Rs.4.40 crore in FY20.

In 7MFY23, the company has already earned total sales of around Rs.400 crore.

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

Satisfactory operating cycle

The company has satisfactorily managed its working capital cycle marked by improvement in the operating cycle days to 34 days as on March 31, 2022 from 57 days as on March 31, 2020, particularly driven by comfortable levels of collection and improvement in inventory days. The average collection period stood at 15 days, as the sale are either done on "Cash and Carry basis" or through vehicle financing from banks/ financial institutions and processing of such vehicle loans takes marginal time. Inventory days witnessed improvement due to reduction in stock of vehicles attributable to supply side bottleneck due to chip shortage and quick conversion rate in export of mobile phone business. On the other hand, due to limited bargaining power average creditor days remain low at 5 days for FY22 (PY: 8 days). Inventory management is crucial for FIPL as it is required to stock different models of vehicles and spares in the showrooms in order to ensure adequate availability and visibility, thus leading to moderate levels of inventory.

Key Rating Weaknesses

Leveraged capital structure and moderate debt protection metrices

Although, the capital structure of the company witnessed improvement in the last three financial years but continued to remain leveraged marked by overall gearing of 2.59x as on March 31, 2022 (4.68x as on March 31, 2020). Improvement in the overall gearing was attributable to improvement in the operating cycle and consequent reduction in working capital utilization coupled with increase in networth through accumulation of profits over the years. Adjusted overall gearing (i.e. after treating USL from promoter as quasi equity) stood at 1.83x as on March 31, 2022.

Despite improvement in the recent past, debt protection metrices continued to strained marked by TD/GCA of 8.34x as on March 31, 2022 due to low gross cash accruals attributable to thin operating margins inherent in dealership business.

Restricted bargaining power with Original Equipment Manufacturer (OEM) with its fortunes linked with growth plans of OEM

FIPL's business model is largely in the nature of trading wherein profitability margins are moderate. Moreover, dealers have less bargaining power over principal manufacturer. FIPL's performance is linked to the performance of its principal. The financial risk profile of the company has a high degree of correlation with the performance of OEM's vehicles in the market and their ability to launch new products. However, given that OEM is one of the market leaders in passenger vehicles (PV) segment, the off-take risk is moderated to some extent.

Limited geographical presence

The company's scale of operations remained moderate over the years, due to its limited geographical presence as the company has the dealership of OEM for passenger vehicles in West Bengal and Assam only. As a result of moderate scale of operation, the company does not get benefit from economies of scale and during financial stress it may impact the business as compared to other companies in same field who has various showrooms across region.

Inherent competition and cyclical nature of the auto industry

The company remains exposed to competition from the products of other OEM's and dealers operating in the same region. In order to capture the market share, the auto dealers' offer better buying terms like allowing discounts on purchases. Accordingly, the company has to resort to offering better buying terms like allowing discounts to capture the market share. Such discounts create margin pressure and negatively impact the earning capacity of the company. However, the company's association with its customers, its established network helps it to sustain the competition to an extent and maintain its strong market position in the region. Furthermore, the auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. The company thus faces significant risks associated with such cyclical nature of the auto industry.

Industry outlook

Domestic sales in the PV segment showed strong growth of 29% on a y-o-y basis in October 2022. An uptick in vehicle production with the easing of semiconductor chip availability as well as a series of new model launches, the PV segment continues to outperform. The passenger cars and utility vehicles subsegment showed strong growth of 36% and 26%, respectively. The demand for premium vehicles especially for SUVs and compact SUVs is gaining traction and is relatively higher than in other segments. However, sales declined by 4% on a m-o-m basis on high base of September 2022.

CareEdge Research expects the domestic automobile industry sales volume to grow in the range of 17%-19% in FY23. The PV segment will continue to grow with an increasing preference for premium vehicles.

Liquidity: Adequate

Adequate liquidity position of the company is marked by sufficient cushion in gross cash accruals of Rs. 7.75 crore in FY22 vis-à-vis scheduled repayment of Rs.4.31 crore in FY22; supported by above unity current ratio and modest cash and cash equivalents of Rs.3.30 crore as March 31, 2022.

Going forward, liquidity position of the company is expected to remain adequate on account of adequate gross cash accruals vis-à-vis debt repayment obligations in FY23.

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
Auto Dealerships

About the company

Incorporated in 1976, Frostees (Export) India Private Limited was taken over by the Kolkata-based Himatsingka family in 1998. It is one of the oldest dealers of Hyundai Motors India Limited in Kolkata and Assam, with operations since 1997. During FY19 (on 24-May-2018), the name of the Company was changed from Frostees Export (India) Pvt Ltd to Frostees India Pvt Ltd. FIPL is running an automobile dealership business since 1997 for the dealership of Hyundai Motor India Limited in West Bengal and Assam.

Currently, day-to-day affair of the company is looking after by Mr. Nitin Himatsingka supported by a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (U/A)
Total operating income	371.59	494.38	400.0
PBILDT	13.23	15.30	NA
PAT	2.79	4.84	NA
Overall gearing (times)	3.70	2.59	NA
Interest coverage (times)	1.87	2.46	NA

A: Audited; U/A: Unaudited; NA- Not available

Status of non-cooperation with previous CRA: Issuer Not Cooperating from Brickwork Ratings as per press release dated May 04, 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 (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	-	-	-	-	75.50	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	March, 2026	12.79	CARE BBB-; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	10.00	CARE BBB-; Stable / CARE A3

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	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (16-Sep-22)	-	-	-
2	Fund-based - LT-Cash Credit	LT	75.50	CARE BBB-; Stable	1)CARE BBB-; Stable (16-Sep-22)	-	-	-
3	Fund-based - LT-Term Loan	LT	12.79	CARE BBB-; Stable	1)CARE BBB-; Stable (16-Sep-22)	-	-	-

*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	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	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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