

Hira Automobiles Limited

July 20, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|------------------------------|---|---|---------------|
| Long Term Bank Facilities | 35.00 | CARE B+; Stable (Single B Plus; Outlook: Stable) | Assigned |
| Total Bank Facilities | 35.00 (Rs. Thirty-Five Crore Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hira Automobiles Limited (HAL) are constrained by the modest & declining scale of operations and weak solvency position. The ratings are further constrained by the limited bargaining power with Maruti Suzuki India Limited (MSIL) and competitive & cyclical nature of the auto-dealership industry. The ratings, however, derive strength from the experienced promoters along with established track record of operations and long-standing relationship with MSIL.

Rating Sensitivities

Positive factors

- Steady scale-up of operations to ~Rs.250 Cr.
- Improvement in the PBILDT margins in the range of 6-8%.

Negative factors

- Deterioration in the capital structure with overall gearing ratio deteriorating to above 7x, increased reliance on the working capital borrowings (due to elongation in the operating cycle).
- Deterioration in the coverage ratios with ISCR falling below 1.25x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest and declining scale of operations: The scale of operations of the company declined during FY20-21 period, with total income of Rs.277.17 Cr. in FY20 which declined by ~25% from total income of Rs. 370.98 Cr. FY19. The scale of operations further declined by ~26% in FY21 to Rs. 204.39 cr. The decline in income is attributable to overall slowdown in demand for automobiles in the domestic market coupled with the impact of Covid-19 led lockdowns. The PBILDT and PAT margins of HAL improved to 4.26% and 0.14% in FY21 from 2.79% and (0.14%) in FY20. The Profitability margins stood low on account of high interest costs.

Weak Solvency position: The overall gearing ratio of the company remained leveraged at 6.67x, as on March 31, 2021 (P.Y; 6.86x). The debt coverage indicators as marked by total debt to GCA ratio and interest coverage ratio also remained weak at 45.21x, as on March 31, 2021 and 1.25x in FY21, respectively. The high leverage is due to high working capital requirement and lower net-worth. Therefore, the company has to rely on external debt to meet its working capital requirement.

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 the principal manufacturer (MSIL). The margin on products is set at a particular level by the principal manufacturer thereby restricting the company to earn incremental income.

Competitive and cyclical nature of the industry: The Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like MSIL, Tata Motors, Hyundai, Honda, Toyota, etc. in the passenger vehicle segment. Original Equipment Manufacturers (OEMs) are encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Dealers' fate is also linked to the industry scenario and performance of OEMs. The company is dealer of MSIL only and derives its total operating income largely from sale of MSIL's passenger cars. Hence, performance and prospects of the company is highly dependent on MSIL being its principal. The automotive sector is also dependent on economic growth, credit conditions and consumer confidence in the economy. The auto industry is inherently vulnerable to economic cycles and is highly sensitive to interest rates and fuel prices. Fuel prices also 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 decisions.

Key Rating Strengths

Experienced promoters: The company was incorporated by Smt. Rajinder Kaur Bhattal (ex-Chief Minister of Punjab) and Mr. Dhanwant Singh Sangha. Presently Mr. Rahulinder Singh Sidhu (Director and Son of Smt. Rajinder Kaur Bhattal) and Mrs. Neha Sidhu (Director and wife of Mr. Rahulinder Singh Sidhu), look after day-to-day operations of the company. Combined, they have experience of more than three decades in the industry. 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 along with long association with MSIL: HAL has been engaged in the car dealership business since its inception in 1989. The company is an authorized dealer of Maruti Suzuki India Limited and has a long-standing association with its principal since then. The company operates 15 facilities in Punjab including Nine 3S (sales, service and spare parts) facilities, three 2S (service and spare parts) facilities and three 1S (sales) including 'True Value' showrooms for pre-owned cars.

Liquidity: Stretched: The current ratio and quick ratio of HAL stood at satisfactory level of 1.52x and 0.74x respectively, as on March 31, 2021 (PY: 1.27x and 0.61x). The company had free cash and bank balances of Rs. 2.12 Cr. as on March 31, 2021 and has no major capex plans going forward. The average utilization of the working capital limits remained high at ~95%, in the twelve-month period ended June-2021. The operating cycle remained elongated at 119 days, as on March 31, 2021 (PY: 92 days), mainly on account of high collection and inventory days. The company availed moratorium on its debt obligations due from March-2020 to August-2020 along with additional loans of Rs.16.62 Cr., extant RBI guidelines in light of Covid-19 for its working capital requirements. The company has a repayment obligation of Rs. 4.82 Cr. FY22, which is proposed to be met through internal accruals, inventory and debtor reduction and projected fund infusion by the promoters in form of Unsecured Loans

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Hira Automobiles Limited (HAL) was incorporated in 1989 Smt. Rajinder Kaur Bhattal (ex-Chief Minister of Punjab) and Mr. Dhanwant Singh Sangha. Presently, Mr. Rahulinder Singh Sidhu (Director and Son of Smt. Rajinder Kaur Bhattal) and Mrs. Neha Sidhu (Director and wife of Mr. Rahulinder Singh Sidhu), look after day-to-day operations of the company. HAL is an authorized dealer of Maruti Suzuki India Limited (MSIL) and deals in diverse products of passenger cars and used cars. Besides, the company also derives income from after sales service, sale of the spare-parts coupled with income in the form of performance-based incentives and discounts from MSIL, insurance income, etc. The company operates 15 facilities in Punjab including Nine 3S (sales, service and spare parts) facilities, three 2S (service and spare parts) facilities and three 1S (sales) including 'True Value' showrooms for pre-owned cars.

| Brief Financials (Rs. crore) | FY20(A) | FY21(A) |
|------------------------------|---------|---------|
| Total operating income | 277.17 | 204.39 |
| PBILDT | 7.74 | 8.72 |
| PAT | (0.38) | 0.29 |
| Overall gearing (times) | 6.86 | 6.67 |
| Interest coverage (times) | 1.05 | 1.25 |

A: Audited

Status of non-cooperation with previous CRA: Nil

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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-----------------------------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | 35.00 | CARE B+; Stable |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|-----------------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Fund-based - LT-Cash Credit | LT | 35.00 | CARE B+; Stable | - | - | - | - |

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

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|-----------------------------|------------------|
| 1. | Fund-based - LT-Cash Credit | Simple |

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

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name - Mr. Amit Jindal

Group Head Contact no.- +91-11-4533 3228

Group Head Email ID- amit.jindal@careratings.com

Relationship Contact

Name: Mr. Anand Jha

Contact no. : +91-0172-4904000/1

Email ID : anand.jha@careratings.com

About CARE Ratings:

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