

Indus Motor Company Private Limited

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	76.48	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long-term / Short-term bank facilities	251.00	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3+

Details of facilities in Annexure-1

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Indus Motor Company Private Limited (Indus) factors in the strong sales growth in FY23 (refers to the period April 01 to March 31) aided by higher sales volumes on back of healthy demand for MSIL passenger vehicles during FY23 and improved capital structure.

The ratings continue to draw strength from the company's established presence in the automotive dealership business with a large network of showrooms and service centres spread across Kerala, long-standing relationship with the principal and leverage of being the market leader for Maruti Suzuki passenger vehicles in the state of Kerala. However, the ratings remain constrained by the concentration of operations in the Kerala market and thereby susceptibility to the socio-economic condition of the regions and moderately high leverage levels. Furthermore, thin operating margins inherent to the dealership nature of business, and susceptibility to economic cycles and exposure to intense competition constrain the ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in sales volumes with operating margin of 5% or above on a sustained basis.
- Consistent improvement in the overall gearing below 1x.

Negative factors

- Consistent decline in the sales volumes impacting the profitability levels and liquidity position.
- Deterioration in the capital structure with overall gearing beyond 2.50x
- Any adverse ruling against the company in the ongoing NCLT litigation impacting the business operations.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the company's ability to maintain its market position, which coupled with stable demand scenario shall enable it to sustain its healthy business profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Established presence in the automotive dealership business with a large network of showrooms and service centres: The company commenced its first sales outlet of Maruti Suzuki India Limited (MSIL) dealership in 1986 with one single branch and since then has diversified its presence all across Kerala. The company further increased its large network of sales outlets and workshops in FY23 by adding new outlets thereby taking the total number of vehicle sales outlets to 92 (PY: 87) and service workshops to 72 (PY: 70). This apart, the company also has diversified presence in the sale of pre-owned cars with 18 "True Value" Showrooms (PY: 14) as well as MSIL commercial vehicle (CV) sales with 6 CV outlets. During FY23, Indus earned 71% of the revenue from sale of vehicles followed by 17% income from the sale of spares and service, and approximately 11% revenue from sale of pre-owned cars. The company also runs a rental car business wherein it operates a fleet of 500 passenger vehicles for local transportation under the "IndusGo" brand, which accounted for around 1%-2% of the total revenue.

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

Long-standing relationship with the principal and leadership position in Kerala: Indus is the largest dealer of MSIL passenger vehicles in the state of Kerala and has been associated with the principal for almost three decades. MSIL is the leader in the passenger vehicle segment with a strong market share of about 40% in FY23 and Indus leverages on the strong brand of MSIL to register Y-o-Y growth. In Kerala, Indus occupies the leadership position with a reported market share of 33%-35% of MSIL's total sales volumes and almost accounts for 2%-2.5% of MSIL's nationwide sales.

Strong sales growth in FY23: The total operating income (TOI) of the company increased by 37% to ₹2,723 crore (PY: ₹1,981 crore) aided by healthy demand for passenger vehicles and increase in the income from service and sale of spare parts. Indus reported an increase of 15.46% in the number of units sold which stood at 33,889 units in FY23 (FY22: 29,351 units). The absolute PBILDT and gross cash accruals (GCA) thus stood improved to ₹80.93 crore (FY22: ₹49.71 crore) and ₹60 crore (FY22: ₹35.54 crore), respectively.

Improvement in the capital structure albeit moderately high: The capital structure of the company improved significantly marked by overall gearing of 1.80x as on March 31, 2023, as against 3.16x as on March 31, 2022). The higher sales growth combined with the stable profitability margins resulted in marked improvement in the net worth base to ₹116 crore (PY: ₹80.68 crore). The total external debt of the company comprises ₹70 crore of GECL loan and the balance ₹127 crore of inventory funding as on March 31, 2023. The interest coverage stood improved to 4.11x (PY: 3.15x) and total debt to GCA at 3.50x (PY: 7.34x).

Key weaknesses

NCLT litigation: In January 2020, Minority Shareholders of Indus Motor Company Private Limited ("Company"), have filed a Company Petition, against the Company, majority shareholders and the CEO with allegations of oppression and mismanagement and Hon'ble Tribunal (NCLT) has vide order dated January 17, 2020, had directed the parties to maintain status quo on all aspects. Subsequently, during February 2021, minority shareholders again filed a petition stating that the company should not go for any external debt and sought for clarification in COVID-19 loans availed stating it amounted to violation of the status quo order. NCLT again gave decree in favour of minority shareholders vide its order dated June 18, 2021. The company again filed an appeal against this decree with NCLAT contesting that the availment of COVID-19 loans and other debt availment is part of regular operations and the management needs to carry on the business, which the company is maintaining status quo. The company received order from NCLAT vide order dated May 11, 2022, where the earlier order from NCLT dated June 18, 2021, was quashed and set aside. The first petition filed with NCLT (January 2020) is still pending. The management indicated that the petitioners (minority shareholders) and respondents (company) planned to resolve the matter under arbitration which is currently under process. Any material impact of the litigation on the business or operational profile of the company shall be closely monitored by CARE Ratings Limited (CARE Ratings) and shall be critical for the rating prospects.

Thin profitability margins inherent to dealership nature of business: The company's operating margin from dealership business has remained thin in the past primarily on account of the trading nature of operations. Besides, the company has limited negotiating power and limited pricing flexibility with the principal. The market also faces aggressive competition from various other established automobile dealers of the companies. The company's operating margins have been in the range of 2.9% - 3% during the last two years. The cushion in margin is mainly provided by a stable service income which carries better margins. With a widespread presence of 72 workshops in and around Kerala, Indus has a market share of more than 30% in the service segment as well, which supports in maintaining the margins.

Intense competition and cyclicity in the industry: Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market. Entry of the global players in the Indian market has further intensified the competition. Hence, original equipment manufacturers (OEMs) offer various discount schemes to attract customers. Due to very high competition in the industry, the dealers are also forced to pass on discounts and exchange schemes to attract the customer as this is a volume-driven business. Furthermore, the automotive sector is dependent on economic growth, credit conditions and consumer confidence. The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to interest rates and fuel prices. Further, the policies implemented by the government also have a direct bearing on the sale of passenger vehicles.

Operations confined to the state of Kerala: The operations of the company are confined only to the state of Kerala, thus exposing the company to socio-economic risks associated with the region. However, the company plans to diversify to other states including Tamil Nadu in the near term, which aid the company in reducing geographical concentration risk associated with its operations.

Liquidity: Adequate

Indus has sufficient projected cash accruals to repay its long-term debt obligations of ₹23 crore during FY23. Free cash and bank balance stood at ₹45 crore as on March 31, 2023 (Prov.). The average working capital utilisation of the company for the 12-month period ended April 2023 remained comfortable at 56% for CC and inventory funding limit also aided by obtaining booking advances from the customers. Indus generated positive cash flows in FY23, given the improvement in working capital. The working capital cycle improved to 33 days in FY23 (FY22: 47 days) due to improvement in the inventory position as on March 31, 2023.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	Auto Dealer

Indus Motor Company Private Limited (Indus), headquartered in Kochi, Kerala, was incorporated in the year 1984 and is an authorised dealer of Maruti Suzuki India Limited. The promoters of the company are essentially three groups, viz., the Wahab family which holds 59.09% and is running the operations of the company. Abdul Wahab is the chairperson and has business interests in financial services, educational institutions, and real estate in India and Dubai. He is supported by his sons, Afdhel Abdul Wahab, Ajmal Abdul Wahab, Jaber Abdul Wahab and Javed Abdul Wahab. The other three groups are the promoters of the Malabar group who hold 20%, Mr. PA Hamza and group who hold 0.26%, and the Nair Family who holds 20%. The company's day-to-day operations are overseen by the Chief Executive Officer, Thomas Kuruvilla.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (P)
Total operating income	1,860.01	1,981.35	2,723.17
PBILDT	55.84	49.71	80.93
PAT	19.74	12.15	35.95
Overall gearing (times)	3.17	3.23	1.80
Interest coverage (times)	2.43	3.15	4.11

A: Audited, P: Provisional; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	15.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	20-02-2029	61.48	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	251.00	CARE BBB; Stable / CARE A2

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 2023-2024	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
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	251.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (01-Jun-22)	-	-
2	Fund-based - LT-Term Loan	LT	61.48	CARE BBB+; Stable	-	1)CARE BBB; Stable (01-Jun-22)	-	-
3	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (01-Jun-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the 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

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About us:

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