

## Geetha Auto Commercials

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	4.00	CARE B+; Stable	Assigned
Short-term Bank Facilities	11.00	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Geetha Auto Commercials (GAC) are constrained by its small scale of operations, thin profitability margins associated with dealership business, constitution of entity being a partnership firm, leveraged capital structure and moderate debt coverage indicators, pricing constraints and margin pressure arising due to intense competition and dependency on fortunes of principal [i.e., Tata Motors Limited (TML)] with low bargaining power. However, the aforesaid constraints are partially offset by experienced promoters and management, low counterparty credit risk and long-standing association with TML.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- ✓ Improvement in the total operating income to Rs.100 crore on a sustained basis.
- ✓ Improvement in the capital structure, marked by the overall gearing ratio of below 3.00x on a sustained basis

#### Negative factors

- ✗ Decline in total operating income below Rs.50 crore on a sustained basis.
- ✗ Elongation of the operating cycle beyond 60 days on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that the firm will continue to benefit from the extensive experience of the promoters in the industry.

### Detailed description of the key rating drivers:

#### Key weaknesses

**Small scale of operations and thin profitability margins:** The total operating income has increased from Rs.17.88 crore in FY22 to Rs.55.50 crore in FY23 due to an increase in demand resulting in higher sales of commercial vehicles. However, the scale of the company was the highest during FY19 at Rs.98.20 crore. Post which the sales saw a declining trend due to the COVID pandemic. The small scale of operations limits the company's financial flexibility in times of stress. The PBILDT margin in FY23 was reported at 2.21% (FY22: 7.33%), the margins did not improve despite the growth in scale due to the rise in the cost of trade and employee costs. Also, the PAT margin stood at 0.17% in FY23 as compared to 0.11% in FY22.

**Leveraged capital structure with low net worth base:** The capital structure of the company has remained leveraged and marked by an overall gearing ratio of 5.20x in FY23 as against 4.57x in FY22 majorly on account of an increase in working capital utilisation and GECL loan. Also, higher leverage is on account of the company utilizing mainly in channel financing facility wherein they receive 100% funding coupled with a low net worth base of Rs.2.70 crore as of Mar 31, 2023. The debt coverage indicators have deteriorated due to an increase in overall debt which is marked by total debt to GCA of 28.90x (23.53x as of Mar 31, 2022) as of Mar 31, 2023.

**Constitution of the entity being a partnership firm:** GAC's constitution as a partnership firm has the inherent risk of the possibility of withdrawal of the partner's capital at the time of personal contingency and the firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowings as credit creditworthiness of partners would be the key factor affecting the credit decision of the lenders.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Pricing restrictions and margin pressure arising out of intense competition:** The margin on products is set at a particular level by Tata Motors Limited (Rated CARE AA; Stable/CARE A1+ as per PR dated June 15, 2023) (TML), thus restricting the firm to earn any incremental income. TML has a large dealership network which limits the bargaining power of the dealer with customers. Further, the original equipment manufacturers (OEMs) are encouraging dealerships to improve penetration and sales, thereby increasing competition amongst the dealers. The entry of the global OEMs into the Indian market has further intensified the competition. To capture the market share, auto dealers have to offer better buying terms like providing credit periods or allowing discounts on purchases which create pressure on the margins and negatively impact their earning capacity.

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

### Key strengths

**Experienced promoters & established track record of operations in the Automobile dealership business:** GAC, established in 2016, is an authorized dealer of Tata Motors Ltd for the sale of Medium (MCV) & Heavy Commercial vehicles (HCV). The company commenced its operations in 2016 with its owned showroom in Warangal providing 3s (sales, service, spare parts) facilities. The company is an exclusive dealer of Heavy & Medium CVs (Cargo & construction vehicles) in Warangal district of Telangana. The partners, Mr Arun Kumar Muppasani and Mr Danikula Rambabu, have experience in automobile dealership business with TATA (Tata Motors Ltd) based in Telangana.

**Benefit from a long-standing relationship with TML:** GAC has been engaged in automobile dealership for over 8 years and has a long-standing association with its principal i.e., TML. Over the years, the firm has established its presence in the city of Warangal in the state of Telangana for the sale of Commercial vehicles.

### Liquidity: Stretched

The liquidity position of GAC is stretched marked by high utilization of working capital limits of 90% for the past 12 months ending January 31, 2024. The company has reported gross cash accruals of Rs.0.49 crore in FY23 and free cash and bank balance of Rs.0.35 crore as of March 31, 2023, as against the repayment obligations of Rs.0.35 crore in FY24.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non-financial Sector](#)

[Auto Dealer](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

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

Geetha Auto Commercials (GAC) is a Warangal-based auto dealership company incorporated as a partnership entity in 2016, by Mr. Muppasani Arun Kumar, Dhanikula Rambabu, Dhanekula Venu, Gangavarapu Nagarjuna and Nagendra Subramanyam. The company is an authorised dealer for the sale of commercial vehicles of Tata Motors Limited in Warangal district of Telangana. The company has set up a showroom and service centre with international standards. It provides 3s facility i.e., sales, spares, and service.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	11MFY24 (UA)
Total operating income	17.89	55.50	52.00
PBILDT	1.31	1.23	NA
PAT	0.02	0.10	NA
Overall gearing (times)	4.58	5.21	NA
Interest coverage (times)	1.59	1.42	NA

A: Audited UA: Unaudited NA: Not Available; 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 to 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE B+; Stable
Fund-based - ST-Vendor financing		-	-	-	11.00	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 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-Cash Credit	LT	4.00	CARE B+; Stable				
2	Fund-based - ST-Vendor financing	ST	11.00	CARE A4				

LT: Long term; ST: 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 - ST-Vendor financing	Simple

#### Annexure-5: Lender details

To 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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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