Pebco Motors Limited

August 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	22.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in rating assigned to bank facilities of Pebco Motors Limited (PML) consider long and established track record of the promoters in automobile dealership of Maruti Suzuki India Limited (MSIL), moderate financial performance in FY24 (refers to the period April 01 to March 31), satisfactory capital structure along with strong liquidity and comfortable working capital cycle. The ratings, however, constrained on account of modest scale of operations with sales concentrated in the state of Jharkhand, limited bargaining power, fortunes of the company linked to the performance of MSIL, inherent competition and cyclical nature of auto industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operation as marked by total operating income of above Rs.250 crores on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 7.00% and 4.00% respectively on sustained basis.

Negative factors

- Deterioration in the capital structure as marked by overall gearing above 0.50x
- Decline in cash and liquid investment below Rs. 25 crores.
- Any major debt funded capex.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the company will continue to benefit from vast experience of the promoters in auto dealership industry and sustain its satisfactory financial risk profile in near to medium term.

Detailed description of the key rating drivers:

Key strengths

Long and established track record of promoters in automobile dealership of MSIL:

PML was incorporated in 1971 by Late Mr. Nagin B. Parikh (father of Mr. Kishan N. Parikh). Later, the founder's son Mr. Kishan N. Parikh (aged 57 years) expanded the business under his stewardship. He has more than 2 decades of experience in the auto dealership business and has healthy relationship with principal supplier, MSIL. PML is engaged in automobile dealership business for over five decade and has a long-standing association with its principal MSIL. PML is the oldest Maruti dealer in Jamshedpur, Jharkhand. Over the years PML has increased its presence in Jharkhand and now has 5 showrooms, 5 workshops and own one True Value showroom, and one driving school.

Moderate financial performance in FY24:

PML reported a growth in operational revenue by 8.39% in FY24 over FY23 from 176.20 crore to 192.34 crores. Despite growth in operational revenue, PBIDT margins declined from 3.99% in FY23 to 2.45% in FY24 due to increased competition and commission being received on per vehicle sold basis (per vehicle commission remaining same on sale of higher ticket sized vehicles).

Earlier, majority vehicles sold were in the price point of Rs.6-8 lakhs used to be sold which has now increased to Rs.8-12 lakhs. The company earns its commission on a per vehicle basis and not a percentage of the selling price hence the margins have been affected. PAT margin has increased to 4.23% in FY24 vis-à-vis 2.43% in FY23. Increase in PAT is due to non-operating income amounting to Rs. 7.77 crore which is mainly gain on sale of investments.

In Q1FY25, the company's TOI stood at around Rs.40.37 crore.

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

Satisfactory capital structure and debt protection metrics backed by low debt levels:
PML doesn't have any term loans and the debt largely constitutes unsecured loans from related parties and working capital debt. Capital structure of the company has remained comfortable, with overall gearing stood at 0.13x in FY24 as against 0.07x in FY23 due to accretion of profits over the years. Interest coverage of the company moderated from 7.11x to 4.45x in FY24 due to decline in PBILDT. The capital structure is expected to remain comfortable in the near term due to absence of any debt funded capex by the company.

Comfortable working capital cycle:
The company has efficiently managed its working capital cycle as reflected in its operating cycle days (48 days in FY24 vis-à-vis 32 days in FY23) primarily driven by comfortable levels of collection and creditor days however increase in inventory days. As the sales are made to the customers mostly on "Cash and Carry" basis with certain percentage of vehicles bought on vehicle financing from banks. The same leads to the average collection period of around 6-12 days. Further, on account of the low bargaining with its principals, the company receives shorter credit period and immediate payment is to be made which result in average creditors period of around 2-3 days. However, on the other hand the company is required to stock different models of vehicles and spares to ensure adequate availability and visibility, and as a result the inventory holding days of the company stood at 37 days during FY24 as against 27 days in FY23 respectively. The increase in inventory day was broadly due to year end push of vehicles from its principal (MSIL).

Key weaknesses

Inherent competition and cyclical nature of auto industry:
The company is exposed to competition from the products of other OEM's and dealers operating in the same region. To capture the market share, the auto dealers' offer better buying terms like allowing discounts on purchases. Accordingly, the company 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.

Limited bargaining power:
PML's business model is largely in the nature of trading wherein profitability margins are moderate. Moreover, dealers have less bargaining power over principal manufacturer. To capture the market share, the auto dealers' offers better buying terms like allowing discounts on purchases. Such discounts offered to customers create margin pressure.

Fortunes of the company linked to the performance of MSIL:
PML's performance is linked to the performance of its principal MSIL. The financial risk profile of the company has a high degree of correlation with the performance of MSIL's vehicles in the market and their ability to launch new products. However, MSIL is one of the largest automobile manufacturers and it is the leading player in the PV segment, with a market share of ~40% over the years which enables the company to leverage from MSIL's established position in the PV segment.

Limited geographical presence resulting in modest scale of operation:
The company's scale of operations remained moderated over the years, due to its limited geographical presence. The company has the dealership of MSIL for passenger vehicles and commercial vehicles only in Jamshedpur, Jharkhand. As a result, 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.

Liquidity: Strong

The PML has strong liquidity position marked by total gross cash accrual of 9.96 crores against a nil debt repayment obligation. The average monthly utilization of fund based working capital limit stood around 50% (as articulated by lender).
As on March 31, 2024, the free cash and liquid investment stood at Rs.46.81 crore out of which Rs. 32.35 crore is parked in mutual funds and balance Rs.14.46 crore as cash and fixed deposits.

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
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Dealer

About the company and industry

Industry classification

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

Pebco Motors Limited (PML) was incorporated in 1971 and promoted by Mr. Kishan N. Parikh and his family member. The company is an authorized dealer of Maruti Suzuki India Limited for sale of passenger vehicles and commercial vehicles in Jamshedpur, Jharkhand. The company owns 5 showrooms (Arena:4 and Nexa:1), 5 workshops (Arena:4 and Nexa:1), all the Arena showroom and workshop (Except Adityapur) works in 3S model. Further, the company also own one True Value showroom, and one driving school. The company derives majority of revenue from sale of vehicle and sale of spare parts, pre-owned cars and servicing of vehicles

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Abridged)	Q1FY25 (UA)
Total operating income	176.20	192.34	40.37
PBILDT	7.02	4.71	NA
PAT	4.28	8.13	NA
Overall gearing (times)	0.07	0.13	NA
Interest coverage (times)	7.11	4.45	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL has continued the rating under "Issuer Not Cooperating" vide press release dated December 19, 2023, as the company did not provide relevant information.

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		-	-	-	1.50	CARE BBB; Stable
Fund-based - LT-Electronic Dealer Financing Scheme		-	-	-	20.50	CARE BBB; Stable

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	1.50	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Sep-23)	1)CARE BBB; Stable (03-Oct-22)	1)CARE BBB; Stable (21-Oct-21)
2	Fund-based - LT-Electronic Dealer Financing Scheme	LT	20.50	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Sep-23)	1)CARE BBB; Stable (03-Oct-22)	1)CARE BBB; Stable (21-Oct-21)

LT: Long 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-Electronic Dealer Financing Scheme	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 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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