Salasar Autocrafts Private Limited

September 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	64.00	CARE BB-; Stable	Assigned
Long Term / Short Term Bank Facilities	18.00	CARE BB-; Stable / CARE A4	Assigned
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Salasar Autocrafts Private Limited (SAPL) are constrained by its thin profitability margins, highly leveraged capital structure and weak debt coverage indicators. The ratings are further constrained by company's fortunes linked with performance of the principal and limited bargaining power with principal automobile manufacturer.
The above rating weaknesses are, however, partially offset by SAPLs long track record of operations with experienced promoters and moderate albeit increasing scale of operations.
CARE has also withdrawn the long-term bank facilities based on surrender of limits and 'No Dues Certificate' received from lender that have extended the facilities rated by CARE.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations marked by total operating income (TOI) exceeding Rs.550 crore with improvement in the PBILDT margin above 4.00% on sustained basis
- Improvement in debt coverage indicators marked by interest coverage exceeding 2.00 times on sustained basis.
- Improvement in capital structure marked by overall gearing below 3 times on sustained basis

Negative factors

- Significant decline in scale of operations marked by TOI reaching below Rs.300 crore on a sustained basis
- Deterioration in the debt coverage indicators marked by interest coverage below 1.2x on a sustained basis
- Deterioration in the operating cycle exceeding 60 days leading to further deterioration in the liquidity profile of the company on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'Stable' rating outlook reflects CARE Ratings Limited (CARE Ratings) belief that SAPL will sustain its scale of operations on the back of experienced promoters in the auto dealership business with stable demand for passenger and commercial vehicles in the targeted market.

Detailed description of key rating drivers:

Key weaknesses

Leveraged Capital Structure & weak debt coverage indicators: The capital structure of the company remained highly leveraged marked by overall gearing stood at 7.73x as on March 31, 2024 as against 8.10x on March 31, 2023. The slight improvement was mainly attributable due to proportionately higher increase in the tangible networth base as against total debt as on balance sheet date. The debt coverage indicators remained weak marked by interest coverage ratio stood at 1.29x in FY24 (against 1.30x in FY23) on account of higher finance cost paid during the year as against thin profit margins.

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

Thin profitability margins: The profitability margins of the company continued to remain thin mainly due to the trading nature of operations coupled with limited pricing power as the same is fixed by principal i.e. Mahindra & Mahindra Ltd (Mahindra). However, PBILDT margin has slightly improved to 3.13% in FY24 from 2.22% in FY23 owing to reduction in the operational & selling expenses made by the company. The PAT margin has slightly improved to 0.56% in FY24 as against 0.30% in FY23. The company expects profit margin to slightly improve in the near to medium term owing to the removal of maximum limit cap set by IRDAI for recognizing Insurance commission income under a particular dealer. Nevertheless, the profit margins expected to remain thin due to auto dealership nature of its operations with intense competition across the targeted market.

Fortunes linked to performance of Principal: SAPL's performance is directly linked to the performance of its principal i.e. Mahindra. The performance of Mahindra for its domestic PV and UV market has seen highly competitive intensity in recent times, with the foray of multiple players and the expanding product portfolio of existing players. However, The SUV market share of Mahindra and Mahindra has increased to 20.4% in FY24 as compared to 19.10% in FY23 on the back of the success of its new car launches such as Scorpio N, XUV700, Thar Roxx, Bolero Neo and its most recent launch XUV 3XO. Furthermore, the share has further increased to 21.6% in Q1FY25. Nevertheless, its ability of the SAPL to increase its scale of operations in the targeted market remain key monitorable.

Presence in cyclical and intensely competitive automotive industry: The automobile industry is highly cyclical, with sales primarily determined by the country's economic state, directly linked to consumer spending power. Economic downturns lead to lower sales, while booms increase them. The industry is sensitive to macroeconomic factors like interest rates and inflation, which affect vehicle purchasing costs and disposable income. Regulatory changes, such as BS-VI Phase-II emission norms and vehicle scrappage policies, directly impact sales volumes. Fuel prices, influenced by global uncertainties and geopolitical tensions, affect vehicle running costs and disposable income, thereby influencing consumer purchasing decisions.

Key strengths

Experienced promoters and established track record in automobile dealership business: SAPL is part of Jakhete group which operates dealership business for various brands including Mahindra, Kia, Renault, Honda and Honda Motorcycle & Scooter India (HMSI). The extensive experience in the industry help promoters to establish strong marketing connects across the various regions in Maharashtra. The day-to-day operations of the company are looked after by Mr. Aditya Jakhete having more than a decade of experience in the same industry. He is ably supported by Mrs. Preeti Jakhete who looks after the finance function in the company. She has an experience of around 15-20 years in the industry. The directors in turn are supported by well qualified and experienced second line of management.

Moderate although increasing scale of operations: SAPL operates at a moderate scale with TOI ranging from Rs. 174.49 crore to Rs. 483.80 crore during FY21 to FY24, growing at a CAGR of 29.04% due to increased demand in the passenger vehicle segment, new car launches by Mahindra, and an increase in showrooms by SAPL. The number of showrooms and workshops expanded from 1 and 2 respectively to 8 and 3 across Thane and Raigad districts. The company expects further revenue growth in FY25 due to increased demand for Mahindra vehicles and addition in the showrooms.

Liquidity: Stretched

The liquidity position of SAPL remained stretched marked by higher utilization of its fund based working capital limits of Rs. 61 crores with average of maximum utilisation stood at 98.36% with average utilization stood at 92.35% for the past 12 months ended July 2024. The company also has availed channel financing limit of Rs. 3 crores to fund the additional inventory during the festive seasons. The working capital cycle stood at 43 days during FY24 (FY23: 35 days). The current ratio stood weak at 1.02x as on March 31, 2024 (vis-à-vis 0.94x as on March 31, 2023) while quick ratio stood at 0.17x as on March 31, 2024 (FY23: 0.14x). The free cash and bank balances stood at Rs. 1.81 crores as on March 31, 2024 (vis-à-vis Rs. 0.96 crores as on March 31, 2023). The cash flow from operating activities stood negative of Rs.4.17 crore in FY24 (vis-à-vis negative of Rs.7.55 crore in FY23) due to unfavourable working capital changes. The expected gross cash accruals to remain sufficient to meet its debt repayment obligations of Rs.3.24 crore and Rs. 4.57 crore during FY25 and FY26 respectively.

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
Short Term Instruments
Withdrawal Policy
Auto Dealer

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	Auto Dealer

SAPL was established in 2017 as an authorized dealer of Mahindra for trading of passenger as well as commercial vehicles and its spare parts. It also engaged in servicing of the vehicles. SAPL has total 8 showrooms, 3 service centres and 1 stockyard located in the districts of Thane and Raigad.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	Q1FY25 (UA)
Total operating income	458.59	483.80	114.62
PBILDT	10.16	15.14	5.48
PAT	1.36	2.68	3.51
Overall gearing (times)	8.10	7.73	NA
Interest coverage (times)	1.30	1.29	1.56

A: Audited; P: Provisional; UA: Unaudited; NA: Not Available; Note: 'these are latest available financial results'.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	64.00	CARE BB-; Stable
Fund-based - LT-Electronic Dealer Financing Scheme		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	18.00	CARE BB-; Stable / CARE A4

Annexure-2: Rating history for 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-Electronic Dealer Financing Scheme	LT	-	-	-	1)CARE C; Stable; ISSUER NOT COOPERATING* (16-Oct-23)	1)CARE C; Stable; ISSUER NOT COOPERATING* (29-Sep-22)	1)CARE C; Stable; ISSUER NOT COOPERATING* (03-Aug-21)
2	Fund-based - LT-Cash Credit	LT	64.00	CARE BB-; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	18.00	CARE BB-; Stable / CARE A4				

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Contact us

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About us:
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