

Simha Motors Private Limited (Revised)

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	64.08	CARE BB-; Stable; ISSUER NOT COOPERATING*	Revised from CARE BB; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	0.92	CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE has been seeking information on No default statement from Simha Motors Private Limited (SMPL) to monitor the ratings vide e-mail communications dated July 22, 2024 to August 29, 2024, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Simha Motors Private Limited (SMPL) bank facilities will now be denoted as CARE BB-; Stable; CARE A4 ISSUER NOT COOPERATING*

Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised and migrated to INC category due to non-submission of monthly 'No Default Statement' ("NDS") by Simha Motors Private Limited (SMPL). SMPL's management has remained non-cooperative and CARE has not received NDS for three consecutive months of June 2024, July 2024 and August 2024.

Analytical approach: Standalone

Outlook: Stable

At the time of last rating on June 11, 2024, the following were the rating weaknesses and strengths.

Detailed description of key rating drivers:

Key weaknesses

Modest scale of operations

The scale of operation of SMPL have reflected a growing trend since inception. SMPL's total operating income increased by 18.49% on Y-o-Y basis from ₹222.76 crore in FY22 (FY refers to April 01 to March 31) to ₹263.46 crore in FY23 on the back of an increase in the number of vehicles sold and increase in demand for Passenger Vehicles. However, During FY24, SMPL achieved a TOI of Rs. 214 crore which translates to 82% of the total revenue achieved in FY23. This is on the back of decrease in demand for Passenger Vehicles of KIA motors due to high interest rates and an inflationary environment.

Geographical concentration risk

The company's scale of operations though growing, remains constrained due to its limited geographical presence. The company has a dealership of KIA India Private Limited (KIA) only in the state of Andhra Pradesh (in Vijayawada, Guntur and Bhimavaram) leading to geographical concentration risk. As a result, the company does not get benefit from economies of scale and during financial stress it may impact the financial flexibility of the company.

Thin profitability margins associated with auto dealership business

SMPL's profitability stood thin since inception due to intense competition in the industry resulting in discounts and exchange schemes to attract customers and capture market share. Also, the company has limited negotiating power with the principal and has no control over the selling price of vehicle as the same is fixed by KIA. However, the same is offset by higher margins in spares and accessories. Over the period of last four years, the company reported PBILDT margins around 3-5% which was supported by higher average gross margins in spares and accessories of around 10-12% against thin margins in car sales of around 5-6%

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

Cyclical nature of auto industry

The auto industry is inherently vulnerable to economic cycles, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy). The auto industry is also highly sensitive to interest rates and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. The fuel prices have a direct impact on running costs of the vehicle and any hike in the same would lead to reduced disposable income of consumers, influencing the purchase decision. The firm thus faces significant risks associated with dynamics of the auto industry.

Intense competition in the industry

Indian automobile industry is highly competitive in nature with large numbers of players operating in the passenger vehicle segment. OEMs are also encouraging more dealerships to improve penetration and sales, thereby increasing competition. The entry barriers in the dealership business in terms of investment in set up and technology is low. Therefore, emergence of new dealers is very imminent and the competition it faces from existing dealers of other OEM's is very intense. To offset the same, dealers must come up with extra discounts, which creates margin pressure and negatively impact the earnings capacity of the firm. Also, launch of different variants of products at competitive prices from other OEM's pose significant threat to the survival because of drop in sales over change in customer preference from one OEM to another.

Key strengths

Growing market share of principal in the domestic market:

SMPL's performance is linked to the performance of its principal KIA automobiles. KIA automobiles entered the Indian market in August 2019 with the launch of its first offering KIA Seltos. And since then, KIA's products have been a hit because of their ergonomic design, technology loaded and affordably priced offerings. KIA has registered a cumulative sales (domestic and export combined) figure of more than 6 lakh units with a market share of about 6.42% within 4 years and is among the few topmost selling cars in the Indian market in terms of sales volume.

Extensive experience of promoters in auto dealership business

SMPL is promoted by the Mr. Sateesh Ravella and is supported by his father Mr. R.V Subbaiah. Both the directors are graduates and have an experience of more than 3 decade in the automobile industry through their association with this company and earlier other entities engaged in similar business. The directors are supported by a qualified team of professionals with significant experience in their respective fields.

Moderate capital structure and debt coverage indicators

The Capital structure of the company remained moderate as marked by overall gearing of 3.90x in FY23 as against 4.22x in FY22 and 4.89x in FY24 (provisional) due to scheduled repayment of term loan and improvement in networth base. The debt coverage indicators remained stable and moderate during the year marked by interest coverage ratio and total debt to GCA ratio which stood at 2.81x and 7.93x during FY23 and 1.42x and 23.15x during FY24 respectively as compared to 3.18x and 6.66x during FY22. The interest coverage deteriorated marginally due to increased interest costs. Further, the total debt to CGA deteriorated on account of an increase in working capital bank borrowings and no improvement in GCA level on absolute term. The total debt consists major portion of working capital bank borrowings and Term loans which are utilized towards setting up of showroom. Going forward, capital structure is expected to remain moderately leveraged.

Diversified presence and long track record of existence

The company Simha Motors Private Limited, is promoted by Mr. Sateesh Ravella-Director, who is ably supported by his father Sri R V Subbaiah (Director). Mr. Sateesh Ravella is, from a well-connected family in Coastal Andhra Pradesh who has a diversified business presence for more than three decades in auto dealership business. Initially they started with the family business of automotive finance. Later they entered in to dealership of different OEMs before engaging with KIA.

Comfortable working capital cycle

The operating cycle of the company remain stable however elongated to 72 days in FY24 against 38 days in FY23 and 31 days in FY22, on the back of increased inventory period. The business of automobile dealership has inherent high working capital intensity due to high inventory holding. The entity must maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. The industry benchmark for the operating cycle of automobile dealers and distributors stood at 60 days. Further, on account of the low bargaining with its principal, the company receives shorter credit period and immediate payment is to be made which results in average creditor period of around 1-2 days.

Liquidity: Stretched

The liquidity profile of the company is stretched as marked by negative cash flow from operations to the tune of ₹-14.10 crores, largely due to funds tied up in inventory comprising various car models. Also, the current ratio is thin at 1.15x in FY24 and FY23. The average utilization of working capital limits stood at around 90% for the last 12 months ended April 30, 2024. Further, the company generates gross cash accruals of ₹2-6 crores against annual repayment obligations of around ₹3.24 crore over FY24. However, the promoters are resourceful and can infuse funds either in the form of equity or unsecured loans as and when required. As on March 31, 2024, SMPL has free cash and bank balance of ₹1.22 crores.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Dealer](#)

[Short Term Instruments](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the company and industry

Industry classification

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

Simha Motors Private Limited (SMPL) is Vijayawada based auto dealership company incorporated in August 2018 by Mr. Sateesh Ravella-Managing Director who has around three decades of experience in the automobile industry. He is supported by his father Sri R V Subbaiah. The company is an authorised dealer of KIA India Private Limited focusing on the sale of passenger vehicles, servicing, and the sale of spare parts through its 3S facility showrooms situated in Vijayawada, Guntur and Bhimavaram. SMPL has been expanding its reach in various other locations of Andhra Pradesh establishing its presence in the local markets and have won dealership awards as Best Dealer RDE Transition Award in March'2023 from KIA Motors and National Top Performer – KIA Carnival Sales Year 2021 (Tier 3 & 4).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	222.74	263.93	213.96
PBILDT	9.79	10.35	8.34
PAT	2.99	3.13	0.27
Overall gearing (times)	4.22	3.87	4.89
Interest coverage (times)	3.16	2.81	1.42

A: Audited UA: Unaudited; 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		-	-	-	58.32	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	31-03-2025	5.76	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	0.92	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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-Term Loan	LT	5.76	CARE BB-; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (11-Jun-24)	-	-	-
2	Fund-based - LT-Cash Credit	LT	58.32	CARE BB-; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (11-Jun-24)	-	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	0.92	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4 (11-Jun-24)	-	-	-

*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: NA**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-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of 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 for clarifications.

Contact us

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About us:

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