

Motor World Private Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2.38 (Reduced from 5.46)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	60.02 (Enhanced from 53.60)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Motor World Private Limited (MWPL) factors in significant improvement in the company's operational performance in FY24, registering total operating income (TOI) above ₹1,800 crore, aided by high sales volume driven by healthy consumer demand for Toyota SUV style vehicles. CARE Ratings Limited (CARE Ratings) expects that the company would continue to sustain its performance backed by demand in the passenger vehicle (PV) segment for premium and luxury vehicles. Ratings continue to factor in vast experience of promoters in the automobile dealership industry, diverse revenue base, and its long-standing relationship with the principal.

Rating strengths are partially offset by increasing borrowing levels in current financial year due to higher inventory level, as the supply side challengers are easing out. With inherent thin profit before interest, depreciation, and taxation (PBDIT) margins associated with auto dealership business, increasing interest cost is likely to moderate debt coverage indicators for the company in the near term. Ratings are also constrained by the working capital-intensive business, risk associated with inherent cyclical nature of the auto industry, intense competition from other original equipment manufacturer (OEM) dealers, and dependence on performance of principal in the PV segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Return on capital employed (ROCE) over 15%, and total debt/PBDIT of less than 2x, while sustaining scale of operations at the current level.

Negative factors

- Interest coverage ratio (ICR) below 1.75x or net working capital to operating income (NWC/ OI) of over 12%.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that MWPL will continue to sustain its performance aided by demand of Toyota vehicles and will continue to benefit from long-standing experience of its promoters in the auto dealership business.

Detailed description of key rating drivers:

Key strengths

Robust Operational performance

The company's scale has been continuously improving. It reported 40% growth in revenue to ₹1834 crore in FY24 (Prov.) against ₹1309 crore in FY23 aided by healthy consumer demand. The company has been benefitting from improving consumer preference for Toyota since last two years and by introducing new variants by principal. The company has diverse revenue stream with income from sale of cars, used cars, service and sale of spare parts. The company generates revenue from sales of new cars and used cars, which contributes to ~90% of total sales value, rest 10% comes from sales of spares and accessories, and service income, where the company generates comparatively better margins. CARE Ratings notes that the company has reported income of ₹632 crore in 4MFY25, and with upcoming festive season revenue levels are expected to sustain in FY25.

Stable financial risk profile

The company's capital structure though improved in FY24 due to scheduled repayment of term loan and optimal utilisation of working capital limits. Overall gearing improved slightly and stood at 1.24x as on March 31, 2024, when compared to 1.44x as on March 31, 2023. However, the company is continuously availing working capital limit to fund its inventory stock as to maintain stock to timely cater customer demand. Debt coverage indicators marked by total debt to gross cash accruals (TD/GCA), and ICR stood at similar levels in FY24 at 4.04x and 2.65x, compared to 4.88x and 2.87x in FY23, due to improved GCA and PBDIT in absolute term.

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

Top Toyota dealer in Bangalore

MWPL is among the three dealers of Toyota cars in Bengaluru and caters to South and East regions. MWPL sells over 600 cars per month supported by high customer demand for Toyota variants. With upcoming festival season and healthy demand for Toyota variants, CARE Ratings expects the company to sustain sales volume.

Long-standing association with principal and diverse revenue profile

The company is one of the primary dealers of Toyota Passenger Vehicles of Toyota Kirloskar Motor Private Limited, and commenced operations in January 2000, and presently has 12 facilities, which caters to South and East Bengaluru. The company also sells Toyota-certified used cars through its showrooms named "Toyota U trust" and has service centres as well. Thus, the company has diverse revenue profile with income coming from sale of cars, used cars, service and sale of spare parts. The company garners higher margin in the used cars and service segment compared to new cars segment. MWPL continues to maintain dominant market position as Toyota car dealer in Bengaluru. MWPL is also the sole dealer for the Toyota's premium, Lexus, in Karnataka.

Vast experience of promoters in dealership business

Saju. K Thomas (Chairman and MD of the Group), the promoter of Popular Group, started his career in 1980 and was the architect of successful dealership businesses of Maruti, DCM Toyota and Bajaj in the 80-year-old Kuttukaran group. The Popular Group operates in sectors of the automobile industry such as PVs, two-wheelers and earth-moving equipment. The group has six dealerships of Toyota, Lexus, Bajaj, KTM, Hyundai and JCB, in Kerala and Karnataka.

Key weaknesses

Thin profitability margin

The company's profitability margin declined marginally in FY24 (Prov.) to 1.94% (PY:2.21%) as though sales volume increased last year due to limited dealership margins profitability declined last year. The company needs to make sure that they are keeping latest and high in demand variants in their showroom, which leads to increase cost of acquiring inventory. However, in absolute terms PBIDT has shown growth from ₹28.96 crore in FY23 to ₹35.49 crore in FY24. The company's ability to sustain its revenue levels and healthy earnings before interest, taxation, depreciation, and amortisation (EBIDTA) margins will be a key monitorable.

Working capital intensive business

The dealership business is inherently working capital intensive. The company's operating cycle stood at same level of 22 days in FY24 (PY: 22 days) as collection days stood at similar level of 10 days (PY: 11 days) and average inventory days at 17 days (PY: 16 days). However, as the company needs to maintain stock of 30-35 days and owing to high inventory cost working capital borrowings have been increasing and as on July 31, 2024, stood at ₹170.88 crore (March 31, 2024: ₹79.57 crore).

Dependence on performance of principal

MWPL's performance is directly linked to the performance of its principal, Toyota. Toyota's performance has improved in the last few years considering increased consumer demand for its SUV models. Last year, Toyota reported growth in sales volume, which had a direct impact on MWPL's performance. The regular launch of new models and upgrading existing models from Toyota is necessary for its dealers such as MWPL to maintain improved operational performance.

Performance susceptible to intense competition in the domestic PV industry

Automobile industry is highly competitive due to presence of well-established players in the market such as Maruti Suzuki India Limited, Mahindra and Mahindra, TATA Motors Limited who are among the top competitors of Toyota Kirloskar Motor Private Limited, in passenger vehicle segment. OEMs continuously launches new variant with advance features at competitive price thereby influencing consumer preferences which directly impact the sales of principal. To negate this affect principal encourages more dealerships to improve penetration in the market which increases competition among dealers. Also, entry barrier in the dealer ship business in terms of set up cost is low which intensifies competition among dealers of same OEM. Dealerships also have to deal with unexpected shifts in buyer preferences toward newer models launched by competitor OEMs, impacting their revenues.

Cyclical nature of the automotive industry

The automotive industry is highly vulnerable to economic cycle and is majorly driven by consumer's preferences. The industry is also highly sensitive to interest rate and inflation, which increases purchasing cost, affecting the consumer's disposable income and influencing their decision. Fuel prices also have a direct impact on the vehicle's running cost and hikes would lead to reduced disposable income of consumers, influencing purchase decision.

Liquidity: Adequate

The company's liquidity of is adequate marked by anticipated healthy GCA, which would be sufficiently cover repayment obligation of ₹8.00 crore in FY25. Cash and liquid investments stood at a comfortable level of ₹42.40 crore as on June 30, 2024. The company's current ratio improved and stood at 1.01x (PY: 0.96x) as on March 31, 2024. The company has inventory funding limits of ₹221 crore and utilisation for 12-month period ended June 2024 stood low at 57%, though increasing in recent months.

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

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

MWPL commenced operations in January 2000 as an authorised dealer in Toyota Passenger Vehicles of Toyota Kirloskar Motor Private Limited catering to South and East Bangalore. The company belongs to 'Popular Group', which operates dealerships of Hyundai, Bajaj & JCB and Harley Davidson across South India. The company has two 3S (sales, service and spares), three 2S (sale and service), one 1S and two express facilities showrooms in Bangalore. The company sells Toyota parts and accessories, and Toyota-certified used cars through its three used-car showrooms in Bangalore named "Toyota U Trust". The company is also the sole dealer for the premium brand Lexus of Toyota in Karnataka and has an exclusive showroom in Bangalore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	July 31, 2024 (UA)
Total operating income	1,309.32	1,833.96	632.10
PBILDT	28.96	35.49	11.79
PAT	10.52	16.00	4.19
Overall gearing (times)	1.44	1.24	NA
Interest coverage (times)	2.87	2.65	2.57

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL continues to place the rating of MWPL under Issuer Not Cooperating vide PR dated September 12, 2024, as the company did not share information.

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.50	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	-	60.02	CARE A3
Fund-based-Long Term	-	-	-	-	1.88	CARE BBB-; Stable

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-Long Term	LT	1.88	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Sep-23)	1)CARE BB+; Stable (02-Sep-22)	1)CARE BB; Stable (06-Dec-21)
2	Fund-based - LT-Cash Credit	LT	0.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Sep-23)	1)CARE BB+; Stable (02-Sep-22)	1)CARE BB; Stable (06-Dec-21)
3	Fund-based - ST-Working Capital Limits	ST	60.02	CARE A3	-	1)CARE A3 (29-Sep-23)	1)CARE A4+ (02-Sep-22)	1)CARE A4 (06-Dec-21)

LT: Long term; ST: 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 - ST-Working Capital Limits	Simple
3	Fund-based-Long Term	Simple

Annexure-5: Lender detailsTo view 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

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-80-46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-44-28501001 E-mail: pradeep.kumar@careedge.in	Himanshu Jain Associate Director CARE Ratings Limited Phone: +91-80-46625528 E-mail: himanshu.jain@careedge.in
	Preeti Narkhede Analyst CARE Ratings Limited E-mail: Preeti.Narkhede@careedge.in

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