Siva Sankar Motors Private Limited

November 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	70.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Siva Sankar Motors Private Limited (SSMPL) is constrained by its moderate scale of operations and thin profitability margins associated with dealership business, working capital intensive nature of operations, leveraged capital structure and moderate debt coverage indicators, pricing constraints and margin pressure arising due to intense competition, lack of geographical diversification, dependency on fortunes of principal [i.e., TATA Motors Limited (TML)] with low bargaining power and cyclicality associated with the automobile industry.

However, the aforesaid constraints are partially offset by experienced promoters and management, low counterparty credit risk, long-standing association with TML and established track record of SSMPL in the automobile dealership business in few districts of Andhra Pradesh (AP) and adequate liquidity position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations of Rs.300 crore and above over the medium term on sustained basis.
- Improvement in capital structure marked by overall gearing ratio below 3.50x on a sustained basis.

Negative factors

- Declining scale of operations, marked by a drop in total operating income (TOI) to below Rs.200 crore.
- Deterioration in the capital structure as marked by overall gearing ratio of above 5x

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the ratings of SSMPL reflects CARE's expectation to sustain its stable financial risk profile and profitability amidst healthy cash flow generation from operations and absence of any large debt funded capex in the medium term. Sufficient cash balances against term debt repayment obligations shall support its adequate liquidity profile.

Detailed description of key rating drivers:

Key weaknesses

Moderate scale of operation: The scale of operations of the company stood modest as marked by total operating income and gross cash accruals of Rs. 269.45 crore and Rs.4.14crore, respectively in FY24. The moderate scale limits company's financial flexibility in times of stress. Further, the company's networth base was relatively small at Rs.13.37 crore as on March 31,2024. The TOI of company declined marginally by 6% when compared to FY23 which is mostly due to decline in sales volume of high value vehicles.

Furthermore, during Q1FY25, the company has achieved total operating income of Rs. 71.34 crore and expecting to achieve similar level of TOI during FY25 given the slowdown in demand for passenger vehicles.

Thin profitability margins associated with dealership business: Profitability margin marked by PBILDT margin remained thin and remained in the range of 2-4% over the period FY20-FY24 owing to trading nature of operations.. During FY24 and Q1FY25, the profitability margins witnessed improvement given the increase in sale of Electric Vehicles (EV) where the margins are slightly better compared to other non-EV vehicles. Further, due to moderate depreciation and interest cost, profit after tax (PAT) margin also remained thin however improved to 1.12% in FY24 as compared to 0.90% during FY23 and Gross cash accruals (GCA) improved to Rs.4.14 crore in FY24 (FY23: Rs.3.53 crore).

Working capital intensive nature of operation: 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

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

distributors stood at 45-60 days. The company's operating cycle in FY24 increased to 33 days. Collection period of the company is comfortable at 11 days (average 10 days for last four years ended FY24). Further, inventory period is about 29 days in FY24 (FY23: 23 days). Instances of building up inventory also take place during the year end to avail various incentives launched by OEMs in order to meet year end targets. Incentive received by the company also depends on the overall score (based on sales and service performance) received from OEMs.

Leverage capital structure and moderate debt coverage indicators: The capital structure of SSMPL remained leveraged however, improved to 4.64x as on March 31, 2024, as against 4.39x as on March 31, 2023, due to accretion of profits to Net worth. As on March 31, 2024, the working capital limits utilization remained high at ~90% to support the growing scale and higher inventory holding. Consequently, debt coverage indicators remained moderate marked by total debt to GCA (TDGCA) of 14.99x as on March 31, 2024, as against 13.86x as on March 31, 2024. With increase in PBILDT levels, the interest coverage ratio also declined but remained at satisfactory level at 1.72x in FY24.

Pricing constraints and margin pressure arising out of high level of competition: Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Maruti Suzuki India Limited (MSIL), Tata Motors, Hyundai, Honda, Toyota etc. in the passenger vehicle segment. With the set-up cost being so low and with no major entry barriers, 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 company. 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 on change of customer preference from one OEM to another.

Lack of Geographical diversification: The operations of SSMPL despite multiple showrooms are restricted to only few districts of Andhra Pradesh viz., Kakinada, Rajahmundry, Srikakulam, Vizianagram and Amalapuram, and Visakhapatnam. Although company has a long track record of operation as authorised dealership of TATA Motors Limited in these districts.

Limited bargaining power with principal automobile manufacturer: The company's business model is largely in the nature of trading wherein profitability margins are very thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer (TML). The margin on products is set at a particular level by the principal manufacturer thereby restricting the company to earn incremental income.

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, overloading norms). Apart from that auto industry, in general, is highly sensitive to the interest rates and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Higher fuel prices tend to shift consumer preferences to ride-sharing apps over owning a vehicle.

Key strengths

Experienced promoters in the auto- dealership business: SSMPL was incorporated by Mr. Venkata Ratnam and Mr. Veera Raghavamma, who has more than two decades of experience. The company is now run by second generation of promoters Mr. MVM Ravinder, a mechanical engineer with more than 2 decades of experience in auto dealership business and Mr. MSS Prasad a Bachelorette in Arts who looks after day-to-day activities of business. The promoters are ably supported by experienced team of finance, marketing and other personnels.

Low Counter-party credit risk: The company is not exposed to credit risk as the customer profile mainly consists of the retail customers who get their major part of the vehicle cost financed by a bank or a NBFC. The vehicle is released from the showroom only when the delivery order or the sanction letter from the bank is produced by the customer. The company is then being paid by the lender within 15 days. Hence the credit risk is mitigated.

Long-standing association with TML: Since its incorporation, SSMPL has been associated with TML, one of the largest automobile manufacturer and leading player in the passenger vehicle (PV) segment. SSMPL is an authorized dealer of TML's passenger vehicles and has total 11 showrooms i.e. 6 in Visakhapatnam, 1 in Kakinada, 2 in Rajahmundry ,1 in Srikakulam and 1 in Vizianagaram along with 2 service centres. The dealership agreements with TML spans two years and is renewed post completion through mutual consent.

Industry Outlook: The automotive sector is dependent on economic growth, credit conditions and consumer confidence. The auto industry is inherently vulnerable to economic cycles and is highly sensitive to interest rates and fuel prices. Further, the policies implemented by the government also have a direct bearing on the sale of passenger vehicles, like compulsory migration from BS-4 to BS-6 to tackle fuel emissions and the vehicle scrappage policy. In the changeover to BS-VI to Phase II, PV OEMs had to sell off their inventory. The accumulation of certain car models, especially in the entry-level passenger vehicle segment, has led to an increase in inventory, thus a concern, as OEMs are pushing further dispatch, which is keeping the inventory at near all-time high levels.

Liquidity: Adequate

Liquidity of the SSMPL is adequate as suggested by gross cash accruals of Rs.4.14 crore in FY24 against its long-term repayment obligation of Rs.1.20 crore for FY25. With growth anticipated in automobile industry, the group is estimating to generate GCA of Rs.4.35 crore in FY25. Further, promoters keep infusing funds as and when required.

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

About the company and industry

Industry classification

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

Siva Sankar Motors Private Limited (SSMPL) is Andhra Pradesh based auto dealership company incorporated in February 2008 by Mr. Venkata Ratnam and Mr. Veera Raghavamma. The company is and authorised dealer for the sale of passenger vehicles of TATA Motors Limited (TML) of 5 districts of Andhra Pradesh. The company has set up showrooms and service centres with international standards as per the New CI norms with different models of TML. It provides 3s facility (Sales, Spares and Service).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	285.96	269.45	71.34
PBILDT	8.78	10.39	NA
PAT	2.56	3.02	NA
Overall gearing (times)	4.39	4.64	NA
Interest coverage (times)	1.98	1.72	NA

A: Audited 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		-	-	-	7.60	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	March 2027	16.28	CARE BB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	46.12	CARE BB; 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 - LT-Term Loan	LT	16.28	CARE BB; Stable				
2	Fund-based - LT-Working Capital Limits	LT	46.12	CARE BB; Stable				
3	Fund-based - LT-Cash Credit	LT	7.60	CARE BB; Stable				

LT: Long 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-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	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.

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About us:

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