Dunac Automobiles Private Limited

December 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	125.00	CARE B+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the long-term rating assigned to the bank facilities of Dunac Automobiles Private Limited (DAPL) factors incompany's moderate albeit growing scale of operations with low profitability margins, leveraged capital structure marked by high overall gearing andweak debt coverage indicators along with cyclical nature of the industry. The rating also factorS in regional concentration risk and linkage to the fortunes of Tata Motors Limited, pricing constraints and margin pressure arising out of competition from various auto dealers in the market. However, rating derives strength from experienced promoters in automobile dealership industry and benefit from long standing relationship with Tata Motors Limited and moderate operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations, marked by the total operating income of above Rs. 650 crores on a sustained basis.
- Improvement in the profitability margins, marked by the PBILDT and PAT margins of above 4.00% and 1.00% on a sustained basis.
- Improvement in the capital structure, marked by the overall gearing ratio of below 3.50x on a sustained basis.

Negative factors

- Decline in the profitability margins, marked by the PBILDT margin of below 2.00% on a sustained basis.
- Deterioration in the capital structure, marked by the overall gearing ratio of above 8.00x on a sustained basis.
- Decline in the interest coverage to below 1.00x on a sustained basis.
- Elongation in the operating cycle beyond 100 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects that the company will continue to benefit from experience of the promoters in auto dealership industry and established association with its original equipment manufacturer translating into adequate performance in the near-to-medium term.

Detailed description of key rating drivers:

Key weaknesses

Moderate, albeit growing scale of operations with low profitability

The scale of operations of the company stood moderate though improved marked by the improvement in the total operating income which stood at Rs. 489.44 crores during FY24 (Refers to the period from April 01, 2023, to March 31, 2024) against Rs.439.60 crore during FY23. The improvement in the total operating income was on the account of increase in sale of commercial and passenger vehicles. The profitability margins of the company continue to remain low marked by the low PBILDT and PAT margin which stood at 2.82% and 0.41% respectively in FY24 (PY: 1.96% and 0.53% respectively) on the account of low barging power on original equipment manufacturer (OEM's).

Leveraged capital structure and Weak debt coverage indicators

The capital structure of the company has deteriorated and stood leveraged at 6.45x as on March 31, 2024 against 5.36x as on March 31, 2023 on account of increase in working capital borrowings of the company and small tangible net worth base. The debt coverage indicators of the company also stood weak marked by weak interest coverage ratio and total debt to GCA which stood

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

at 1.23x and 39.85x respectively during FY24 (PY: 1.33x and 28.99x respectively) on the account of low profitability margins and high debt levels.

Cyclical nature of the industry

The automotive sector is dependent on the 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. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. The fuel prices have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The policies implemented by government also have a direct bearing on the sale of passenger vehicles.

Regional concentration and linkage to the fortunes of Tata Motors Limited

The operations of the company are geographically concentrated in the region of Rajasthan. Further, the company procures its product directly from its OEM, i.e., Tata Motors Limited (CARE AA+; Stable / CARE A1+) . Thus, the fortunes of the company are directly linked to its OEM which exposes the company's revenue growth and profitability to its OEM's future growth prospects. Any impact on business and financial profile of the OEM will also have an impact on the growth prospects of the company.

Pricing constraints and margin pressure arising out of competition from various auto dealers in the market:

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 Limited, Hyundai Motor Company, Honda Motor Company, Toyota India etc. in the passenger vehicle segment. The margin on products is set at a particular level by the Tata Motors Limited thereby restricting the company to earn incremental income. With the large dealership network of Tata Motors Limited, the bargaining power of the dealer with the customer is further reduced. The market also faces aggressive competition from various other established automobile dealers of companies like Maruti Suzuki and Hyundai Motor company etc. In order to capture the market share, the auto dealers have to offer better buying terms like providing allowing discounts on purchases which create pressure on margins and negatively impact the earning capacity of the company.

Key strengths

Experienced management coupled with long track record of operations

The company was incorporated in 2004 and managed by Mr. Atul Dudi, Mr. Bhagwana Ram Dudi and Mrs. Sushila Devi Dudi as its directors. Mr. Atul Dudi has an experience of around one and half decade in the industry. Mr. Bhagwana Ram Dudi and Mrs. Sushila Devi Dudi has an experience of around two decades and a decade respectively, in the industry. They in turn are supported by well qualified and experienced management team

Benefit from long standing relationship with Tata Motors Limited

The company has long track record of operations in diversified business lines of sale of vehicles, vehicle financing and logistics and warehousing through individual capacity. The company has long standing association with Tata Motors Limited and is an authorised dealer of entire range of commercial and passenger vehicles of TATA Motors Limited (rated CARE AA+; Stable / CARE A1+)It deals in vehicles like Tiago, Nexon, Punch, Curvv, Harrier, Safari, etc. in Passenger Vehicle (PV) Buses, trucks and tippers etc. in Commercial Vehicle (CV) segment.

Moderate operating cycle

The operating cycle of the company stood comfortable though moderated to 69 days in FY24 against 47 days in FY23. The company is required to maintain the stock of different models of vehicles and spares in their showrooms in order to ensure adequate availability and visibility. The average inventory holding period stood at 41 days in FY24 (PY: 29 days). Though the sales to customers are made on "Cash and Carry" basis however, around 70% of the vehicles are bought through financing basis. To comply with the industry standards, the company provides credit period to its customers of around a month, resulting in an average collection period of 36 days in FY24 (PY: 32 days). The company procures passenger cars on advance payment to its OEM. Further, the company received a credit period of around a month from the suppliers of consumables.

Liquidity: Adequate

The liquidity profile of the company is adequate with expected gross cash accruals (GCA) of ~Rs. 2.50 crores in FY25 against which the company has a debt repayment obligation of Rs. 2.46 crores. Further, the company has liquidity buffer available in the form of unutilized WC limits of ~20% as on October 31, 2024, along with free cash and cash equivalents amounting to Rs. 5.74 crores as on October 31, 2024. The company is not planning to incur any major capex in the near to medium term.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Auto Dealer
Service Sector Companies

About the company and industry

Industry classification

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

Incorporated in the year 2004, DAPL was promoted by Bikaner-based Dudi family. Based in Rajasthan, it is an authorized dealer of TATA Motors Limited for the sale of passenger cars and commercial vehicles. It is also engaged in servicing of vehicles and sale of the spare parts. It manages its operations through its four 3S (sales, spare and service) facility showrooms located in Bikaner, Sriganganagar, Suratgarh and Jhunjhunu, Rajasthan. Each of the four showrooms have attached workshop for the post sale services of vehicles. Further, the company has two outlets located in Hanumangarh, Rajasthan.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	439.60	489.44	234.59
PBILDT	8.60	13.79	7.83
PAT	2.31	1.99	1.51
Overall gearing (times)	5.36	6.45	NA
Interest coverage (times)	1.33	1.23	1.45

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

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review and classified the ratings as "not cooperating" vide their press releases dated August 27, 2024, on account of their inability to carry out a review in the absence of requisite information.
CRISIL has conducted the review and classified the ratings as "Not Cooperating" vide their press releases dated January 15, 2024, on account of their inability to carry out a review in the absence of requisite 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Electronic Dealer Financing Scheme		-	-	-	125.00	CARE B+; 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-Electronic Dealer Financing Scheme	LT	125.00	CARE B+; Stable	-	1)CARE B+; Stable (26-Dec-23)	-	-

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-Electronic Dealer Financing Scheme	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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