Hoshiarpur Automobiles

December 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	77.60	CARE BB; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	2.40	CARE BB; Stable / CARE A4+; ISSUER NOT COOPERATING*	LT rating downgraded from CARE BB+; Stable and ST rating reaffirmed and 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 Ratings Ltd. has been seeking information from Hoshiarpur Automobiles to monitor the rating(s) vide e-mail communications/letters dated December 26,2024, December 13,2024, December 11,2024, December 09,2024 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The ratings on bank facilities of Hoshiarpur Automobiles 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 revision in ratings assigned is on account of non-availability of requisite information for continuous monitoring of the ratings. CARE Ratings views information availability risk as a key factor in its assessment of credit risk. Further, the ratings assigned to the bank facilities of Hoshiarpur Automobiles remain constrained due to the modest albeit growing scale of operations, low profitability margins, leveraged capital structure and weak debt coverage indicators. The ratings, further, remain constrained on account of the pricing restrictions and margin pressure arising out of intense competition, cyclical nature of the industry, regional concentration and linkages to the fortunes of Maruti Suzuki India Limited (MSIL) and constitution of the entity being a partnership firm. The ratings, however, derive comfort from experienced partners coupled with long track record of operations, benefit from long standing relationship with MSIL and moderate operating cycle.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the firm will continue to benefit from long-standing experience of the partners in the industry.

Detailed description of key rating drivers: At the time of last rating on December 05,2023, the following were the rating weaknesses and strengths:

Key weaknesses

Modest, albeit growing scale of operations

The scale of operations of the firm remains modest though improved, marked by the total operating income of Rs. 330.55 crore in FY23 (Audited) as against Rs. 268.54 crore in FY22 (Audited). The improvement is account of growth in the sales volume and increase in the sale of premium segment vehicles. Nevertheless, the scale remains modest, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Though, the risk is partially mitigated by the fact that the scale of operations is growing continuously. The total operating income of the firm has been growing at a compounded annual growth rate (CAGR) of 17.75% in last 3 fiscal years (i.e., FY21-23). In H1FY24, the firm has registered a total operating income of Rs. 188.37 crore, which comprise a healthy mix of revenue from sale of new cars (71.77% of total operating income achieved in H1FY24), sale of used cars under MSIL True Value stores (7.24%), sale of spares and accessories (8.80%), repairs and services income (8.06%) and other revenues (4.13%). Further, the firm is expected to achieve a total operating income of around Rs. 390 crores in FY24 backed by the healthy demand in the industry.

Low profitability margins

The profitability margins of the firm remain low though improves, marked by the PBILDT and PAT margins of 3.63% and 1.22% respectively in FY23 (Audited) as against 3.18% and 1.26% respectively in FY22 (Audited). The improvement in margins is on

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

account of the lower discount offered. The profitability margins of the firm are expected to improve around 4.00% over near to medium term as envisaged since focus of the firm is on increasing the share of services revenue in FY24.

Leveraged capital structure and weak debt coverage indicators

As on March 31, 2023 (Audited), the firm's debt profile comprises of term debt of Rs. 24.46 crore, unsecured loans from related parties of Rs. 0.25 crore and working capital borrowings of Rs. 44.08 crore. The capital structure of the firm remains leveraged and deteriorates marginally, marked by the overall gearing ratio of 2.97x in FY23 (Audited) as against 2.72x in FY22 (Audited). The deterioration in capital structure is on account of the high debt levels owing to high utilisation of working capital limits. The firm's capital structure is expected to remain leveraged over the medium term with overall gearing ratio of around 3.00 times, on account of the high debt levels against the low tangible net worth base. The firm's debt coverage indicators remain weak, marked by the interest coverage ratio and total debt to gross cash accruals stood at 1.97x and 8.95x respectively in FY23 (Audited) vis-à-vis 1.64x and 8.32x respectively in FY22 (Audited).

Pricing restrictions and margin pressure arising out of intense competition

The margin on products is set at a particular level by Maruti Suzuki India Limited (MSIL), thus restricting the firm to earn any incremental income. MSIL has a large dealership network which limits the bargaining power of the dealer with customer. The market also faces an aggressive competition from various other auto dealers of companies like Tata Motors, Hyundai, Honda, Maruti, etc. Further, the original equipment manufacturers (OEMs) are encouraging dealerships to improve the penetration and sales, thereby increasing competition amongst the dealers. The entry of the global OEMs in the Indian market has further intensified the competition. In order to capture the market share, the auto dealers have to offer better buying terms like providing credit period or allowing discounts on purchases which create pressure on the margins and negatively impact their earning capacity.

Regional concentration and linkage to the fortunes of Maruti Suzuki India Limited (MSIL)

The operations of the firm are geographically concentrated in the region of Punjab. Further, the firm procures its product directly from its OEM, i.e., MSIL. Thus, the fortunes of the firm are directly linked to its OEM which exposes the firm'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 firm.

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.

Constitution of the entity being a partnership firm

Hoshiarpur Automobiles' constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowings as credit worthiness of partners would be the key factor affecting credit decision of the lenders.

Key strengths

Experienced partners coupled with long track record of operations

Established in the year 1980 as a partnership firm, Hoshiarpur Automobiles is a Punjab based authorized dealer of Maruti Suzuki India Limited for the sale of passenger vehicles. The firm is currently being run and managed by two partners, Mr. Gurpreet Singh and Mr. Iqbal Singh, who look after the day-to-day operations of the firm. Mr. Iqbal Singh is a graduate by qualification and holds an industry experience of over four decades. Besides, he is engaged in agricultural activities and also owns a petrol pump by the name of 'Iqbal Filling Station' in Garhshankar, Hoshiarpur district (Punjab). Mr. Gurpreet Singh is a postgraduate by qualification and holds an industry experience of more than a decade through his association with the firm. The partners of the firm have inherited business knowledge and acumen in automobile segment as family inheritance. The partners also have an adequate acumen about various aspects of business which is likely to benefit the firm in the long run.

Benefit from long standing relationship with MSIL

Hoshiarpur Automobiles is engaged in automobile dealership for over four decades and has a long-standing association with its principal i.e., MSIL. Over the years, the firm has established its presence in Punjab as depicted by 25 showrooms in the state for sale of passenger vehicles. The firm sells all the models and variants that are being introduced by the manufacturers through ARENA and NEXA channels of MSIL along with one showroom each of True Value and commercial vehicles (MSIL

Moderate operating cycle

The operating cycle of the firm remain moderate as marked by 43 days in FY23 (Audited). The firm 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 of the firm stood at 24 days in FY23 (Audited). 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 firm provides credit period to its customers of around a month, resulting in an average collection period of 23 days in FY23 (Audited). The firm procures passenger cars by making full advance payment to its OEM. Further, the company received a credit period of around 3-5 days from the suppliers of consumables.

Applicable criteria

Policy in respect of non-cooperation by issuers
Definition of Default
Rating Outlook and Rating Watch
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Auto Dealer
Service Sector Companies
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

Established in the year 1980, Hoshiarpur Automobiles is a partnership firm based out in Singriwala village in Hoshiarpur district (Punjab). The firm is an authorized dealer for sale of passenger vehicles of Maruti Suzuki India Limited (MSIL). Initially, the firm was set up by late Mr. Ajvinder Singh and Mr. Iqbal Singh. Later on, after demise of the former partner, his son Mr. Gurpreet Singh along with Mr. Iqbal Singh is currently managing the overall operations of the firm. The firm provides 3S facility (i.e., sales, spares, and service) and also run true value stores and one driving school in Hoshiarpur district (Punjab). The firm has 24 showrooms and eight workshops of Maruti Arena, Nexa and True Value located in Ludhiana, Hoshiarpur and Fatehgarh Sahib districts in Punjab.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	268.54	330.55
PBILDT	8.55	11.99
PAT	3.37	4.04
Overall gearing (times)	2.72	2.97
Interest coverage (times)	1.64	1.97

A: Audited; 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		-	-	-	30.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Electronic Dealer Financing Scheme		-	-	-	37.85	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	March 2026	9.75	CARE BB; Stable; ISSUER NOT COOPERATING*
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	0.10	CARE BB; Stable / CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.30	CARE BB; Stable / 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-Cash Credit	LT	30.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (05-Dec-23)	1)CARE BB+; Stable (02-Dec-22)	-
2	Fund-based - LT-Term Loan	LT	9.75	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (05-Dec-23)	1)CARE BB+; Stable (02-Dec-22)	-
3	Fund-based - LT-Electronic Dealer Financing Scheme	LT	37.85	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (05-Dec-23)	1)CARE BB+; Stable (02-Dec-22)	-

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
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	2.30	CARE BB; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable / CARE A4+ (05-Dec-23)	1)CARE BB+; Stable / CARE A4+ (02-Dec-22)	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	0.10	CARE BB; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable / CARE A4+ (05-Dec-23)	1)CARE BB+; Stable / CARE A4+ (02-Dec-22)	-

*Issuer did not cooperate; based on best available information.
LT: Long 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	Fund-based - LT-Term Loan	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
5	Non-fund-based - LT/ 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.