

Frontier Automotives Private Limited

February 18, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	60.00	CARE BB; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Stable 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

Frontier Automotives Private Limited (FAPL) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Limited's (CARE Ratings') rating on FAPL's bank facilities will now be denoted as "CARE BB; Stable; 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 downgrade in the long-term rating assigned to the bank facilities of FAPL takes into account deterioration in capital structure marked by high overall gearing and weakening of debt coverage indicators during FY24 (refers to the period from April 01, 2023, to March 31, 2024) and H1FY25 (refers to the period from April 01, 2024, to September 30, 2024). Further, the rating continues to remain constrained by low profitability margin, limited bargaining power of the company with OEMs, intense competition, and cyclicality in the industry. The rating, however, derives comfort from comfortable operating cycle, long-standing relationship with a leading Original Equipment Manufacturer (OEM i.e., KIA India), diversified sources of revenue and extensive experience of the promoters in the automobile dealership business.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that company shall benefit from long track of promoters in auto dealership industry and its association with KIA India which is expanding its market share in India rapidly.

Detailed description of key rating drivers:

Key weaknesses

Moderated Scale of Operations and Low profitability margins

The scale of operations moderated to Rs 417.10 crores in FY24(Audited) from Rs 449.68 crores in FY23. The company reported a sale of Rs 193.19 crores in H1FY25(. The profitability remains low as marked by PBILDT and PAT margin of 2.76% and 0.92% for FY24 respectively, vis-a vis 2.55% and 1.27% in FY23. The profitability margins are low due to intense competition in the industry resulting in discounts and exchange schemes to attract customers and capture market share. The PBILDT and PAT margin for H1FY25 stood at 3.98% and 0.98% respectively.

Leveraged capital structure with moderate coverage indicators.

The capital structure of the company stood leveraged as marked by high overall gearing of 2.82x as on March 31,2024 against previous year gearing levels of 2.67x due to higher utilization of working capital limits. The debt coverage indicators also weakened as marked by interest coverage ratio and total debt to GCA ratio of 2.22x and 10.05x in FY24 (PY: 4.80x and 5.69x). The overall gearing further moderated to 3.31x as on September 30,2024 due to higher utilization of working capital limits.

Limited bargaining power with principal automobile manufacturer

Being primarily into auto dealership business, FAPL's business model is largely in the nature of trading wherein profitability margins are inherently thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer (KIA India). The margin of products is set at a particular level by the principal manufacturer thereby restricting any incremental income for FAPL.

Cyclical nature of the auto industry

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 cost associated with the purchase, leading to purchase deferral. Fuel prices have a direct impact on the ownership cost of the vehicle and any hike in the same will lead to reduced disposable income of the consumers, influencing

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

the purchase decision. Factors like economic slowdown, fear of job loss, and increasing fuel prices (in India) also affect the purchase decisions of customers.

Intense competition in the industry

Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Maruti Suzuki India Limited, Tata Motors, Hyundai, Honda, Toyota, MG Motors etc. in the passenger vehicle segment. FAPL's operations are geographically restricted to Delhi NCR. Original Equipment Manufacturers (OEMs) are also encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Hence, OEMs like KIA Motors have to offer various discount schemes to attract customers. Due to very high competition in the industry, dealers are also forced to pass on discounts and exchange schemes to attract customers and capture market share. Dealers' fate is also linked to the industry scenario and performance of OEMs. FAPL's prospects are governed directly by the performance of KIA Motors Any downturn in its performance or change in nature of agreement with dealers will directly affect the financial and operating performance of FAPL.

Key strengths

Experienced promoters with long track record in auto dealership industry

FAPL is part of the Frontier Group, managing various auto dealership for over three decades. The group operates dealership for Volkswagen, Honda, Hundai, JCB, Skoda, MG Motors and KIA India. Promoters of the group, Mr Anand Wadhwa and Mr Sushant Sharma hold over 3 decades of experience in handling auto dealership. They are supported by a team of professionals in day to day managing of showrooms and workshops.

Efficient operating cycle

The operating cycle stood comfortable at 21 days in FY24 (PY: 8 days). FAPL needs to stock different models of vehicles and spares in the showrooms in order to ensure adequate availability and visibility leading to higher inventory days. The average inventory holding days of the company stood at 30 days in FY23 (PY: 17 days). The sales to customers are made on "Cash and Carry" basis however, around 10% of the vehicles are bought on vehicle financing basis resulting in average collection period of 1-2 days due to procedural delays in financing. Further, the average credit period received by the company stands at 11 days in FY24.

Diversified source of revenue

FAPL operates on 3S model i.e., Sales, Spares and Services. However, as per last year, in FY23, 95% of revenue was derived from sales of new cars, 2.15% from services, 1.50% from spare sales at its workshop and 1.15% from sale of accessories and remaining 0.20% from sale of used cars. By providing all services under one roof, the company has been able to attract many customers. Further, the company is focusing on increasing its revenue from services division since same has comparatively better profitability margins.

Liquidity: Stretched

The liquidity profile of the company remains stretched as marked by negative cash flow from operations to the tune of Rs -2.17 crores due to funds blocked in form of inventory of different models of car. The operations of the company are thus working capital intensive. The average utilization of working capital limits stood high at around 70-75%for trailing 12 months ended January 31, 2025. Further, the company had free cash and bank balance of Rs 2.65 crores as on March 31,2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

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

[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

Frontier Automotive Private Limited (FAPL) is part of Frontier Group, one of the leading automobile groups in India with more than 25 outlets spread across NCR and Madhya Pradesh region. Frontier group operates dealership Of Volkswagen, Honda, Hyundai, JCB, Skoda, MG Motors and KIA all under separate legal entities. Dealership for KIA Motors is operated under FAPL.

The company was incorporated in October 27,2018 however commenced operations in FY20. Currently FAPL manages 2 showrooms and 2 workshops in Delhi and Gurgaon and planning to start another in Gurgaon.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25(UA)
Total operating income	449.68	417.10	193.19
PBILDT	11.46	11.50	7.68
PAT	5.71	3.85	1.90
Overall gearing (times)	2.67	2.82	3.31
Interest coverage (times)	4.80	2.22	2.89

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-Working Capital Limits		-	-	-	60.00	CARE BB; Stable; 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-Working Capital Limits	LT	60.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (02-Jan-24)	-	-

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

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-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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