Inderjit Marwaha Autos Private Limited

June 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	48.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Bank Facilities	**48.00 (₹ Forty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to Inderjit Marwaha Autos Private Limited (IMAPL) is constrained by modest scale of operations, low profitability margins, moderate operating cycle, leveraged capital structure and weak coverage indicators. The rating is further constrained by limited bargaining power of auto dealer with principal manufacturer, inherent competition and cyclical nature of auto industry. The rating, however, derives strength from strong brand image of Maruti Suzuki India Limited and experienced promoters.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations of Rs.350 crore and above over the medium term on sustained basis.
- Improvement in capital structure marked by overall gearing ratio below 1.25x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 3.50x.
- Decline in profitability margins as marked by PBILDT and PAT margins below 1.00% and 0.50% respectively.
- Elongation of operating cycle beyond 90 days

Detailed description of the key rating drivers

Key rating weaknesses

Modest scale of operations and low profitability margins

IMAPL started its operations in October, 2020 and has a relatively short track record of operations as compared with other established players. The scale of operations of the company stood modest as marked by total operating income and gross cash accruals of Rs. 95.02 crore and Rs. 1.63 crore, respectively, in the last six month during FY21. In FY22, with total operating income of the company improve to Rs 199.05 crores, registered a growth of ~52.26% from FY21. Gross cash accruals also improved to Rs 3.47 crores in FY22. Further, in 2MFY23 the company has achieved total operating income of ~Rs 43 crore. The company is expecting to achieve total income from operation of ~Rs. 300.00 crore in FY23.

IMAPL's profitability margins stood low as marked by PBILDT and PAT ratio of 1.74% and 0.63% in FY22 as against 3.24% and 0.76% in FY21. However, the company has limited negotiating power with manufacturers and has no control over the selling price as the same is fixed by the manufacturers, thus the margins is expected to remain low over the medium term.

Moderate operating cycle

The operating cycle stood moderate at 36 days in FY22, being its first full year of operational. The company 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 21 days in FY22.Though the sales to customers are made on "Cash and Carry" basis however, around 70% of the vehicles are bought through financing basis. The same results in a collection period of around 19 days. Further, the company received a credit period of around 3-5 days from the suppliers for procurement of consumables. Besides this, the large working capital requirements are met through bank borrowings which remained around 75% utilized for the last 12 months ended May 2022

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

Leveraged Capital Structure and Weak Coverage Indicators:
The capital structure of the company stood leveraged marked by overall gearing of 2.98x in FY22 as against 2.33x in FY21 on account of high reliance on external borrowings to meet the incremental working capital requirement. Further, in FY22 due to low profitability levels and high debt levels, the coverage indicators remained weak marked by interest coverage ratio and total debt to GCA stood at 1.44x (PY:2.04x) and 7.29x (PY: 10.29x) respectively.

Limited bargaining power with principal automobile manufacturer
Being primarily into auto dealership business, IMAPL'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. The margin of the products are set at a particular level by the principal manufacturer thereby restricting any incremental income for IMAPL.

Inherent competition and cyclical nature of the auto industry
Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like MSIL, Tata Motors, Hyundai, Honda, Toyota etc. in the passenger vehicle segment. The company operations are geographically restricted to Original Equipment Punjab. Manufacturers (OEMs) are also encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Entry of the global OEMs in the Indian market has further intensified the competition. Hence, OEMs like MSIL 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. IMAPL's prospects are governed directly by the performance of MSIL. Any downturn in its performance or change in nature of agreement with dealers will directly affect the financial and operating performance of IMAPL. Furthermore, the auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. The company thus faces significant risks associated with such cyclical nature of the auto industry.

Key rating strengths

Strong brand image of Maruti Suzuki :
IMAPL has an authorized dealership of passenger vehicle segment of Maruti Suzuki India Ltd. in Punjab region. The company sells all the models and variants that are being introduced by the manufacturers through ARENA and NEXA segments of MSIL. MSIL is a market leader in the India passenger vehicle segment with around 42.29% market share in May 2022.

Experiences Promoters: The company's day to day operations is managed by Ankur Marwaha who has inherited business knowledge and acumen in automobile segment as family inheritance. Mr. Ankur Marwaha is a graduate by qualification and possess experience of around a decade in the Auto dealership industry through their association with this entity and other associate entities. Mr. Ankur Marwaha is supported by his wife Mrs. Mehek Marwaha. Mrs. Mehek Marwaha is also a graduate by qualification and possess experience of around half a decade in the Auto dealership industry through their association with this entity and other associate entities.

Liquidity:Adequate
The liquidity position of the company remained adequate characterized by tightly matched accruals vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs. 3.47 crore during FY22, and is expected to generate envisaged GCA of Rs. 4.00 crore for FY23 against repayment obligations of Rs. 1.29 crore in same year. Also, the average utilization of its fund-based working capital limits stood around 61% for the past 12 month's period ending May 30, 2022. However, company has low unencumbered cash and bank balances of 1.24 crores as on March 31, 2022.

Analytical approach- Standalone
Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Dealerships

About the company

Inderjit Marwaha Autos Pvt Ltd. was incorporated in August, 2020 and it started its operations in October 2020. The Company is an authorized dealer for Maruti Suzuki India Limited. It deals in Maruti Suzuki's ARENA and NEXA cars in Punjab state. Currently the company operates 5 ARENA showrooms and service centers across Punjab in Jalandhar, Sultanpur, Begowal, Kapurthala Phagwada and 1 NEXA showroom in Jalandhar. The company is setting up Arena and Nexa Showrooms in Ludhiana which will be operational in FY23. Each of the dealership location is a 3S facility (Sales, Service and Spare Parts) and has attached workshop and stockyard.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	2MFY23*
Total operating income	95.02	199.05	43.00
PBILDT	3.08	3.47	N.A
PAT	0.72	1.25	N.A
Overall gearing (times)	2.33	2.98	N.A
Interest coverage (times)	2.04	1.44	N.A

A: Audited; P: Provisional; N.A- Not Available
Refers to the period from April 01, 2022 to March 31, 2023

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sep 2030	10.00	CARE BB; Stable
Fund-based - LT-Cash Credit		-	-	-	27.00	CARE BB; Stable
Fund-based - LT-Working capital Term Loan		-	-	Dec 2026	8.00	CARE BB; Stable
Non-fund-based - LT-Letter of credit		-	-	-	3.00	CARE BB; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	10.00	CARE BB; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	27.00	CARE BB; Stable	-	-	-	-
3	Fund-based - LT-Working capital Term Loan	LT	8.00	CARE BB; Stable	-	-	-	-
4	Non-fund-based - LT-Letter of credit	LT	3.00	CARE BB; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - LT-Letter of credit	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Shivam Tandon
Phone: +91- 11-4533 3263
E-mail: shivam.tandon@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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.

Disclaimer
The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in