Auto Carriage Private Limited

December 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	47.72	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short Term Bank Facilities	1.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**48.72 (₹ Forty-Eight Crore and Seventy-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Auto Carriage Private Limited (ACPL) is primarily constrained by its small scale of operation, moderate capital structure and weak debt protection matrices, limited bargaining power with its fortunes linked to the performance of Original Equipment Manufacturer (OEM), limited geographical presence and inherent competition and cyclical nature of the auto industry.

The aforesaid weaknesses are, however, partially offset by established track record and extensive experience of promoters, satisfactory financial performance and satisfactory operating cycle.

Rating Sensitivities

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

- Increase in scale of operation beyond Rs.300 crore and improvement in operating margins above 4.0% on a sustained basis.
- Improvement in capital structure with overall gearing below 2.5x on sustained basis.

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

- Decline in scale of operations below Rs.125 crore and operating margins below 2.50% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 4.0x on sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Limited geographical presence and small scale of operations

The company's scale of operations remained moderate over the years, due to its limited geographical presence as the company has the dealership of OEM for passenger vehicles in West Bengal only. As a result of moderate scale of operation, the company does not get benefit from economies of scale and during financial stress it may impact the business as compared to other companies in same field who has various showrooms across regions.

Moderate capital structure and weak debt protection metrices despite improvement in the last three financial years

The company has leveraged capital structure with overall gearing stood at 3.35x as on March 31, 2022 vis-à-vis 5.51x as on March 31, 2020. This improvement was mainly due to increase in networth attributable accretion of profits to reserve.

Debt protection matrices of the company although improved but remained moderate with TD/GCA of 8.76x in FY22 (9.63x in FY21 & 19.79x in FY20) due to increase in gross cash accruals in FY22. Interest coverage of the company also improved from 1.37x in FY20 to 2.52x in FY22 due to increase in PBILDT levels and largely stable finance cost.

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

Going forward, the capital structure is expected to improve due to gradual repayment of debt and accretion of profits to reserve.

Restricted bargaining power with Original Equipment Manufacturer (OEM) with its fortunes linked with growth plans of OEM

ACPL's business model is largely in the nature of trading wherein profitability margins are moderate. Moreover, dealers have less bargaining power over principal manufacturer. ACPL's performance is linked to the performance of its principal. The financial risk profile of the company has a high degree of correlation with the performance of OEM's vehicles in the market and their ability to launch new products. However, given that OEM is one of the market leaders in passenger vehicles (PV) segment, the off-take risk is moderated to some extent.

Inherent competition and cyclical nature of the auto industry

The company remains exposed to competition from the products of other OEM's and dealers operating in the same region. In order to capture the market share, the auto dealers' offer better buying terms like allowing discounts on purchases. Accordingly, the company has to resort to offering better buying terms like allowing discounts to capture the market share. Such discounts create margin pressure and negatively impact the earning capacity of the company. However, the company's association with its customers, its established network helps it to sustain the competition to an extent and maintain its strong market position in the region. 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

Established track record and extensive experience of promoters

ACPL is engaged in automobile dealership business since last 1996. Over the years ACPL has increased its presence in West Bengal. It operates service stations, sells spare parts, and also has tie-ups for vehicle finance and insurance. This allows it to provide a comprehensive range of services to the customer at a single point.

Satisfactory financial performance

Financial performance of the company witnessed improvement in the last three financial years marked by increase in scale of operation and profitability levels attributable to increase in average selling prices of vehicles and sales volume. Increase in scale of operation and largely range bound operating margins led to increase in profitability levels. Accordingly, higher PBILDT level coupled with largely stable capital charges resulted in improvement in profit after tax (PAT) margins to 1.38% in FY22 from 0.48% in FY20. Accordingly, gross cash accruals (GCA) of the company more than doubled to around Rs.3.26 crore in FY22 from Rs.1.14 crore in FY20.

Satisfactory operating cycle

The company has satisfactorily managed its working capital cycle marked by improvement in the operating cycle days to 43 days as on March 31, 2022 from 62 days as on March 31, 2020, particularly driven by comfortable levels of collection and improvement in inventory days. The average collection period stood at 15 days, as the sale are either done on "Cash and Carry basis" or through vehicle financing from banks/ financial institutions and processing of such vehicle loans takes marginal time. On the other hand, due to limited bargaining power average creditor days remain low at 2 days for FY22 (PY: 4 days). Inventory management is crucial for ACPL as it is required to stock different models of vehicles and spares in the showrooms in order to ensure adequate availability and visibility, thus leading to moderate levels of inventory.

Industry outlook

Domestic sales in the PV segment showed strong growth of 29% on a y-o-y basis in October 2022. An uptick in vehicle production with the easing of semiconductor chip availability as well as a series of new model launches, the PV segment continues to outperform. The passenger cars and utility vehicles subsegment showed strong growth of 36% and 26%, respectively. The demand for premium vehicles especially for SUVs and compact SUVs is gaining traction and is relatively higher than in other segments. However, sales declined by 4% on a m-o-m basis on high base of September 2022.

CareEdge Research expects the domestic automobile industry sales volume to grow in the range of 17%-19% in FY23. The PV segment will continue to grow with an increasing preference for premium vehicles.

Liquidity: Stretched

Stretched liquidity position is marked by above 90% utilization of working capital limits in the last 12 months ending October 31, 2022 with low cash and cash equivalents of Rs.1.37 crore as on March 31, 2022. Moreover, the company has also availed the covid19 loan of Rs.5.28 crore to support the working capital requirement at subsidised rate of interest.

Going forward, liquidity position of the company is projected to remain stretched as the cushion between GCA and debt repayment obligations are expected to remain thin FY23.

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
Short Term Instruments
Auto Dealerships

About the Company

Incorporated in May, 1996, Auto Carriage Private Limited (ACPL) is promoted by Kolkata based Himatsingka family. ACPL is engaged in the business of auto dealership for passenger vehicles of Mahindra & Mahindra Limited (rated CARE AAA; stable/A1+) since 2007 onwards in Kolkata, West Bengal. ACPL also offers, Services and Spare parts.

Currently, day-to-day affair of the company is looking after by Mr Nitin Himatsingka, supported by a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (U/A)
Total operating income	119.74	182.94	180.0
PBILDT	3.96	5.57	NA
PAT	1.43	2.52	NA
Overall gearing (times)	3.35	3.35	NA
Interest coverage (times)	2.03	2.52	NA

A: Audited; U/A: Unaudited; NA- Not available

Status of non-cooperation with previous CRA: Issuer Not Cooperating from Brickwork Ratings as per press release dated May 05, 2022.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	43.00	CARE BB; Stable
Non-fund-based-Short Term	-	-	-	-	1.00	CARE A4
Term Loan-Long Term	-	-	-	December, 2026	4.72	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	Non-fund-based-Short Term	ST	1.00	CARE A4				
2	Fund-based - LT-Working Capital Limits	LT	43.00	CARE BB; Stable				
3	Term Loan-Long Term	LT	4.72	CARE BB; Stable				

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-Working Capital Limits	Simple
2	Non-fund-based-Short Term	Simple
3	Term Loan-Long Term	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.

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