Press Release

Adinath Cars Private Limited

August 08, 2024

Ratings

Security/ Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	14.73	IVR BB/ Stable (IVR Double B with Stable outlook)	-	Assigned	Simple
Short Term Bank Facilities	46.50	IVR A4 (IVR A Four)	-	Assigned	Simple
Total	**61.23 (Rupees sixty-one crore and twenty-three lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of Adinath Cars Private Limited (ACPL) derived comfort from its experienced promoters, proven operational track record as an authorised dealer of Maruti Suzuki India Limited (MSIL) and ACPL's stable business performance over the past three fiscal years. The rating also positively factors in the leadership position of MSIL in the domestic passenger vehicles (PV) segment. However, these rating strengths remain constrained due to its thin profitability, low bargaining power and pricing constraints, exposure to intense competition and cyclical nature of the automobile industry. The ratings also note its leveraged capital structure with weak debt protection metrics. The stable outlook reflects expected stable business performance of the company underpinned by long standing experience of its promoters and long relationship with MSIL.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals.
- Improvement in the capital structure with improvement in overall gearing ratio and improvement in debt protection metrics.

- Effective working capital management with improvement in operating cycle and liquidity.

Downward Factors

- Moderation in the scale of operation and/or moderation in profitability on a sustained basis.
- Withdrawal of subordinated unsecured loans leading to moderation in overall gearing.
- Any substantial stretch in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**
  The promoters of the ACPL are well experienced with over four decades of experience in the auto dealership industry.
- **Stable business performance**
  The total operating income of the company witnessed a growth over the past three fiscals from Rs. 226.56 crore in FY 22(A) [FY refers to the period from April 1 to March 31] to Rs. 268.76 crore in FY 24 (Prov.) mainly due to an increase in revenue from sales of cars and revenue from workshop division. In Q1FY25, the company achieved a revenue of Rs.51.79 crore. Infomerics ratings expect that the company will maintain stable growth in the near term.
- **Dominant market position of MSIL in domestic passenger vehicle (PV) segment.**
  MSIL holds the leadership position in the Indian domestic PV segment, driven by the success of its new models and the healthy performance of its existing models. Being a dealer of MSIL, the company is expected to reap benefit from the dominant position of MSIL.

Key Rating Weaknesses

- **Thin profitability, low bargaining power and pricing constraints**
  ACPL's profit margins are inherently thin, given the nature of the dealership business where the commission is decided by the principal. The EBITDA margin of the company remain stagnant over the aforesaid period at ~3% and stood at 3.24% in FY 24 (Prov.), However PAT margin has been remained thin and moderated from 0.78% in FY 22(A) to 0.41% in FY 24(Prov.) due to continuous rise in finance cost.

- **Leveraged capital structure with weak debt protection metrics**
  The capital structure of the company remained leveraged due to its working capital-intensive nature of operations. The long-term debt equity ratio has improved from 0.83x as on March 31, 2023, to 0.54x as on March 31, 2024 (Prov.). However, the overall gearing has moderated from 2.76x as on March 31, 2023, to 3.18x as on March 31, 2024 (Prov.) mainly due to increase in unsecured loan from outsiders. The debt protection metrics of the company gradually dampened over the past three fiscals mainly due to a continuous rise in finance charges. The interest coverage ratio moderated from 2.07x in FY22 to 1.48x in FY24 (Prov.). Moreover, the Total debt to EBITDA & Total debt/ GCA also moderated to 7.47x & 26.18 years respectively as on March 31,2024 (Prov.) (6.04x & 16.33years as on March 31,2023).
- **Exposure to intense competition**
  The company faces competition from dealers of other original equipment manufacturers (OEMs), along with dealers from the same principle resulting in increased pressure to pass on price discounts to customers. Moreover, the incremental investment requirement to regularly upgrade the dealership outlets, in line with the principal's marketing strategy, keeps the cash flows of the dealerships under pressure. Further, the company has a relatively higher geographic concentration in Madhya Pradesh, exposing the company's performance to region-specific event risks.
- **Vulnerable to inherent cyclicality in automobile industry**
  The company remains vulnerable to cyclical downturns in the automobile industry. Further, ACPL revenues like other auto dealers remains vulnerable to regulatory changes (like tax amendments, upward migration to pollution standards) also to consumer sentiments mainly given the discretionary nature of the spend.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Stretched

ACPL has earned a gross accrual of ~2.48 crore in FY24(Prov.). Further the company is expected to earn a lower gross cash accrual as against its debt repayment obligation of Rs. 5.02 for FY 25 and is expected to remain dependent on support from the promoters to service its debt obligations. Moreover, the average utilisation of fund-based limits of the company remained at ~90% -95% through the last 12 months ended June 2024. The current ratio stood at 0.86x as on March 31, 2024 (Prov.), indicating stretched liquidity.

About the Company

Adinath Cars Private Limited (ACPL) was established in 2001, as a partnership firm and after that it was converted into private limited company on 18th May 2017 in Sagar, Madhya Pradesh by Mr. Kapil Malaiya along with his family members. The company is an authorized dealer of Maruti Suzuki India Limited (MSIL). Company is engaged into a network of Maruti Suzuki Outlets, Workshops, True Value, Driving School and Commercial spread across four districts- Chhatarpur, Tikamgarh, Damoh, Niwari and one in Bina Tehsil in Madhya Pradesh. ACPL is a one-stop-shop for sales, service, accessories, finance and insurance for Maruti vehicles. At present, the company is operating in Madhya Pradesh with 10 Showrooms, 9 workshops, 2 stockyards and one motor driving school.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	262.46	268.73
EBITDA	8.48	8.69
PAT	1.65	1.10
Total Debt	51.22	64.95
Adjusted Tangible Net Worth	18.53	20.45
EBITDA Margin (%)	3.23	3.24
PAT Margin (%)	0.63	0.41
Overall Gearing Ratio (x)	2.76	3.18
Interest Coverage (x)	1.76	1.48

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
1.	Term Loan	Long Term	7.81	IVR BB/Stable	-	-	-
2.	GECL	Long Term	0.92	IVR BB/Stable	-	-	-
3.	Cash Credit	Long Term	6.00	IVR BB/Stable	-	-	-
4.	e-DFS	Short Term	14.00	IVR A4	-	-	-
5.	Channel Finance	Short Term	5.00	IVR A4	-	-	-
6.	Inventory Funding	Short Term	17.00	IVR A4	-	-	-
7.	OD Bill Discounting	Short Term	10.00	IVR A4	-	-	-
8.	Bank Guarantee	Short Term	0.50	IVR A4	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	Dec 2029	7.81	IVR BB/Stable
GECL	-	-	-	Dec 2026	0.92	IVR BB/Stable
Cash Credit	-	-	-	-	6.00	IVR BB/Stable
e-DFS	-	-	-	-	14.00	IVR A4
Channel Finance	-	-	-	-	5.00	IVR A4
Inventory Funding	-	-	-	-	17.00	IVR A4
OD Bill Discounting	-	-	-	-	10.00	IVR A4
Bank Guarantee	-	-	-	-	0.50	IVR A4

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Adinath-cars-08aug24.pdf

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

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.