Rajalakshmi Cars Private Limited

September 03, 2024

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	49.96	IVR BB/Stable (IVR Double B with Stable Outlook)	IVR BB/Stable (IVR Double B with Stable Outlook)	Reaffirmed	Simple
	Total	**49.96**	**(Rupees Forty Nine Crore & Ninety Six Lakh 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

Infomerics Ratings has reaffirmed the long-term rating at IVR BB with a Stable outlook to the bank facilities of Rajalakshmi Cars Private Limited (RCPL).

The rating reaffirmation continues to reflect company's experienced management and its established association with Maruti Suzuki India Limited, the market leader in the Indian passenger vehicle segment. Besides, the ratings also factor in growing scale of operations though with thin profitability margin. However, these strengths are constrained by leveraged capital structure of the company, weak debt protection metrics and exposure to volatility in economic cycles being in dealership business.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes that RCPL will continue to benefit from the established association with MSIL which reflects revenue visibility along with the financial support from the Rajalakshmi group.

IVR has principally relied on the standalone audited financial results of RCPL up to FY23 (refers to period April 1st, 2022, to March 31st, 2023) and provisional results of FY24 (refers to period April 1st, 2023, to March 31st, 2024) and three years projected financials for FY2025 (refers to period April 1st, 2024, to March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), along with publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in the scale of operations and profitability & debt protection metrics.
- Improvement in capital structure with overall gearing remaining below 2x on sustained basis.

Downward Factors

- Any decline in scale of operations and/or profitability, leading significant deterioration of debt protection metrics.
- Any significant rise in working capital intensity or unplanned capex leading to deterioration in debt coverage metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management and group support:

Extensive experience of the promoters in varied businesses has helped the company in establishing strong ties with the customers and its principal - Maruti Suzuki India Limited (MSIL). The company, being part of Rajalakshmi group, benefits from the experience of common management which is involved in multiple business segment including education, infrastructure, manufacturing and automobile dealerships. The company gets need based financial support from the group as and when required.

Established association with the market leader in the Indian passenger vehicle segment:

RCPL is associated with MSIL since its inception in 2012. MSIL is currently the market leader in the Indian passenger vehicles segment and has a market share of ~40% in 2024. MSIL's market share is aided by success of its new models, facelifts and continued healthy performance of its existing models. RCPL'S association with MSIL as a dealer for its passenger vehicles will continue to help company in sustaining and expanding its business operations.

Increasing scale of operations though with thin profitability margins:

The company has seen significant growth in topline during FY24 (Provisional), reflecting the overall sentiment of the auto industry. During FY24, the company has seen an increase of ~34% in Total Operating Income (TOI) which increased from Rs. 184.99 crore in FY23 to Rs. 248.23 crore in FY24 (Provisionals). The EBITDA margin declined from 3.79% in FY23 to 3.34% in FY24 (Provisionals) due to moderation in service income which generates higher margins for the company. The GCA in FY24 (Provisionals) stood at Rs. 2.10 crore against Rs. 2.07 crore in FY23.

Key Rating Weaknesses

Leveraged capital structure & weak debt protection metrics:

Overall gearing including quasi equity has remained consistent for last few financial years. It stood at 1.95x in FY24 (Provisional) compared to 1.99x in FY23. Similarly, TOL/ATNW has also remained consistent at around 2x. Debt service coverage ratio (DSCR) and Interest service coverage ratio (ISCR) stands low at 0.71x & 1.33x respectively in FY24 (Provisional).

Thin profitability & pricing constraint:

Though there is consistent increase in the sales volume, company's operating margin has historically been thin, given the nature of the dealership business in which commission is decided by the principal. Pricing constraint with the principal restricts company from bargaining at both ends of the transaction i.e., principal & customer.

Exposure to volatility in economic cycles and intense industry competition:

Automobile sales are exposed to risks related to economic cycle. Any downturn in economic activity, particularly, in the region in which the company operates, would impact the operating performance of the company. Further, automobile dealership business is exposed to intense competition and therefore, RCPL is expected to remain exposed to such risks.

Analytical Approach: Standalone

Applicable Criteria:

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

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate. Though the company has generated lesser cash accruals of Rs. 2.10 crore in FY24(Provisionals) against higher current debt obligations of Rs. 5.49 crore, the gap between cash accrual to repayments will be met from unsecured loans from promoters. Cash accrual for the FY25-FY27 are estimated at ~Rs 4-8 crore as against debt repayment obligations of ~Rs 3-5 crore. The unsecured loans from promoters will help in keeping the liquidity in check. The average utilization for fund-based limits stood higher at ~95% for last 12 months ending July 2024. Cash & cash equivalent of the company stands at ~Rs. 3 crore as on July 31, 2024. The current ratio stood at 1.35x as on March 31, 2024 (Provisionals) (PY: 1.37x).

About the Company

Rajalakshmi Cars Private Limited (RCPL) was incorporated in 2011 and has the dealership of Maruti Suzuki India Limited (MSIL). The company commenced operations in October 2012, mainly covering the territory of North Chennai. RCPL is a part of the Chennai based Rajalakshmi group, which is involved in education, infrastructure & manufacturing. Currently, company has 5 showrooms, 5 service station & 1 True Value outlet for used and refurbished cars.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	184.99	248.23
EBITDA	7.00	8.30
PAT	0.37	0.66
Total Debt	53.27	64.95
Tangible Net Worth	10.61	11.28
EBITDA Margin (%)	3.79	3.34

PAT Margin (%)	0.20	0.27
Overall Gearing Ratio (x)	6.54	7.71
Interest Coverage (x)	1.38	1.33

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Crisil Ratings Limited has continued the rating of Rajalakshmi Cars Private Limited under the Issuer Non-Cooperating category due to non-submission of information and lack of cooperation as per the Press Release dated May 22, 2024.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (July 10, 2023)	Date(s) & Rating(s) assigned in 2022-23 (April 12, 2022)	Date(s) & Rating(s) assigned in 2021-2022
1.	Long Term Bank Facility	Long Term	49.96	IVR BB/ Stable	IVR BB/ Stable	IVR BB/ Stable	-

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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.

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	-	-	-	March 2027	16.66	IVR BB/Stable
Overdraft	-	-	-	-	33.30	IVR BB/Stable

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Rajalakshmi-Cars-03sept24.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

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.