FPL Automobiles Private Limited [FAPL]

January 17, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facility – Fund Based – Term Loan	4.88	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Short Term Facility – Fund Based – Inventory Funding	51.00	IVR A3 (IVR A three)	Reaffirmed	Simple
Proposed Facility	4.12	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Total	**60.00**	**(Rupees Sixty crores)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating affirmation for the bank facilities of FAPL factors stable revenue growth FY23 and H1FY24. Further, the rating continues to derive strength from the FAPL's association with Hyundai Motor India Ltd (HMIL), established geographical presence with six operational showrooms & six service centres across Chennai, Tamil Nadu, moderate financial risk profile, growth in market share and moderate expansion plans. However, the rating strengths are partially offset by working capital intensive operations, intense competition in the auto dealership industry and limited bargaining power with principal automobile manufacturers.

Key Rating Sensitivities:

Upward Rating Factor

- Substantial improvement in scale of operations with sustainability in margins.

Downward Rating Factor

- Any decline in the scale of operation and profitability leading to deterioration of debt protection metrics.

Key Rating Drivers with detailed description

Association with HMIL

The company has established its position in the industry as an authorized dealer of Hyundai Motor India Limited for the past five years, it has a long and established relationship with HMIL.

Stable operating performance

The total operating income of FAPL improved by 20% to Rs.446.16 crore in FY23 driven by a higher volume of cars sold. During H1FY24, FAPL reported revenue of Rs.262.00 crores and is likely to achieve a revenue of Rs.535.00 crores in FY24 as around 55%-60% of the sales happens during H2FY24 as most of the big festivals fall during such period. The EBITDA margin has remained stable in FY23 at 3.10% as against 3.26% in FY22, while PAT margins also remained stable and at 1.56% in FY23 (FY22:1.64%). Most of the revenue is generated from the sales of automobiles which accounted for around 90% of its total income in FY23 while the balance revenue was generated through services, sale of spare parts, oils and workshop income.

Established geographical presence and improved market share.

FAPL has six showrooms and six service centres operating in Chennai, Tamil Nadu. FAPL sells more than eleven models of HMIL cars. FAPL's market share for HMIL cars has improved to 27% in FY23 in Chennai as compared to 25% in FY22.

Moderate Capital Structure

FAPL's capital structure remains moderate though overall gearing slightly increased to 2.89x in FY23 (FY22: 2.53x) due higher working capital utilisation. While TOL/TNW also increased to 3.16x in FY23 (FY22: 2.93x). The net worth of the company improved to at Rs. 21.89 crore in FY23 as compared Rs. 15.13 crore driven by accretion of profits.

Comfortable debt protection metrics

The company's debt protection metrics remains comfortable. The interest coverage ratio was 3.92x at the end of FY23, as against 4.10x in FY22. The debt service coverage ratio (DSCR) also remained comfortable at 1.95x at the end of FY23.

Key Weaknesses

Working capital intensive operations

FAPL purchases vehicles and spares directly from the manufacturing units of HMIL located in Chennai. The oils and other lubricants are purchased locally from Hyundai's recommended dealers. The purchase of vehicles, spares and oils is made against advance payment and hence the average creditor days stood low at around three days. FAPL has to keep a ready stock available in its showrooms and the ordered vehicles remain in the showroom until booked by customers, which depends on the market trends.

Intense competition in the auto dealership industry

Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Ford, Maruti-Suzuki, Tata Motors etc. in the passenger vehicle segment. Entry of the global players in the Indian market has further intensified the competition. Due to very high competition in the industry, dealers are also forced to pass on discounts and other schemes to attract customer as this is a volume driven business. Hence, performance and prospects of the company is highly dependent on Hyundai being its principal.

Limited bargaining power with principal automobile manufacturers

Owing to the inherent limitation in automobile dealership business firm is having limited bargaining power with principal automobile manufacturer HMIL. FAPL business model is largely in the nature of trading with thin profitability margins . Moreover, in this business a dealer has limited bargaining power.

Analytical Approach:

Standalone Approach

Applicable Criteria:

[Criteria of assigning rating outlook](#)

Rating methodology for Trading companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity of FAPL is adequate as reflected by comfortable GCA of Rs.9.66 crore as against the repayment of Rs.3.06 crore in FY23. The current ratio stood at 1.15x in FY23, compared to 1.27x in FY22. The quick ratio remained moderate at 0.52x in FY23 and 0.72x in FY22. FAPL had cash and cash equivalents of Rs. 5.09 crore as of March 31, 2023.

The average unutilized cash credit limits as on September 2023 stood at around Rs.15.30 crores.

About the Company

FAPL is an authorized dealer of HMIL for vehicles and spare parts in the assigned territory of Greater Chennai. Started in 2015 with a single showroom and a service centre, company currently has 6 showrooms and 6 service centres servicing more than 60,000+ customers. FAPL HYUNDAI is currently managed by Mr. Venkateswaran Sekar, Mr. Narayanasamy Mohan, Mr. Vinay Mohan & Mr. Sai Krishna Sekar which has prior experience in automobile industry.

Financials: (Standalone) (INR Crore)

For the year ended/ As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	371.03	446.16
EBITDA	12.10	13.85
PAT	6.09	6.97
Total Debt	35.13	63.28
Tangible Net-worth	15.13	21.89
EBITDA Margin (%)	3.26	3.10
PAT Margin (%)	1.64	1.56
Overall Gearing Ratio (x)	2.32	2.89

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CareEdge Ratings in its press release published on March 13, 2023, has continued to classify the rating under Issuer Not

Cooperating status on account of non-submission of relevant information.

Any other information: Not Applicable

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding	Rating	Date(s) &Rating assigned in 2022-23 (Nov 11, 2022)	Date(s) &Rating assigned in 2021-22 (April 11, 2022)	Date(s) &Rating assigned in 2020-21 (February 16, 2021)
1.	Long Term Fund based facilities - Term Loan	Long Term	Rs.4.88 crore	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	IVR BB/Issuer Not Co-operating (IVR Double B; Issuer Not Co-operating	IVR BB/ Stable
2	Short Term Fund Based Bank Facilities - Inventory Funding/ED FS	Long Term	Rs.51.00 crore	IVR A3 (IVR A three)	IVR A3 (IVR A three)	IVR A4+/ Issuer Not Co-operating (IVR A four; Issuer Not Co-operating)	IVR A4
3	Proposed Long Term Bank Facilities	Long/Short Term	Rs.4.12 crore	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	IVR BB/Issuer Not Co-operating (IVR Double B; Issuer Not Co-operating	IVR BB/ Stable

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.

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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 visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Term Loan	4.88	NA	NA	March 2027	IVR BBB-/ Stable
Short Term Facility – Fund Based – Inventory Funding	51.00	NA	NA	--	IVR A3
Proposed Facility	4.12	NA	NA	--	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-FPL-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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 https://www.infomerics.com/.