Press Release

G.D. Motors

April 24, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	12.98	IVR B+/ Stable (IVR B plus with Stable outlook)	Assigned	Simple
Total	**12.98 (INR Twelve crore and ninety-eight lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facility of G.D. Motors derives strength from its established track record of operations and experienced management, strong brand recognition of Mahindra & Mahindra Limited (M&M), and moderate working capital management. However, the rating is constrained on account of low scale of operation, inherently low profitability margins, leveraged capital structure with moderate debt coverage metrics, intense competition and regional concentration of sales, cyclical nature of automobile industry, and risk inherent in partnership firm with instances of capital withdrawn.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and profitability leading to improvement in cash accruals and debt protection metrics
- Improvement in the capital structure with improvement in the overall gearing ratio

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing
- Moderation in the liquidity position with elongation in its operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and experienced management

The firm commenced its operation in 2012 and has a successful track record of operation across Assam. Both the partners, Mr. Santosh More and Mr. Abhishek More have over a decade of experience in the automobile – trading segment. Long experience of the firm partners and its established track record of operations strengthens the operational risk profile of the firm. The firm's day-to-day operations are looked after by the partners along with a team of experienced professionals.

Strong brand recognition of Mahindra & Mahindra Limited (M&M)

G.D. Motors principal, M&M, is one of the emerging market leader in the Indian Passenger Vehicle (PV) and Light Commercial Vehicle (LCV) segment with a market share of ~10.22% as on February 2023. M&M has reported a 15% rise in its third quarter profit. Further, the gradual easing of the semiconductor shortage issue will support G.D. Motors revenue growth, going forward.

Moderate Working Capital Management

Working capital management remains steady with an operating cycle day of 85 days in FY22. The average inventory period of the firm stood at around 76 days in FY22 (~87 days in FY21) owing to the trading nature of operation. Since majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up some time, the average collection period of the firm remained moderate at around 11 days in FY2022. The average creditors days stood low at around 2 days in FY21 and FY22 respectively as the entire purchase of the firm from its principal (M&M) are routed through channel finance.

Key Rating Weaknesses

Low scale of operation

Though the topline has witnessed a moderate improvement in FY22 backed by rise in demand of commercial and passenger vehicles post lockdown period, the scale of operation of the firm continues to remain low. The total operating income stood at Rs.60.40 crore in FY22. The firm has generated an absolute EBITDA of Rs. 2.42 crore in FY22 (PY - Rs. 2.23 crore). It generated a PAT of Rs.0.40 crore in FY22 (PY - Rs. 0.32 crore) and GCA of Rs.0.94 crore in FY22 (PY – Rs.0.89 crore). Further, it has generated a topline of ~Rs. 90.33 crore in 9M FY23.

Inherently low profitability margins

Inherent to the automobile dealership business, the operating profit margins are thin with pressure to pass on commissions and price discounts to retail customers. Further, the operating profit margins in the auto dealership business remain under pressure as the price margins are decided by the OEMs (i.e., M&M). G.D. Motors profitability is exposed to pricing pressure from other OEMs. The EBITDA margin has moderated from ~4.20% in FY21 to 4.01% in FY22 mainly due to fall in high margins products in the revenue. Though the PAT margin improved marginally from 0.61% in FY21 to 0.66% in FY22 it continues to remain thin owing to the nature of industry and high interest cost.

Leveraged capital structure with moderate debt coverage metrics

The firm has a leveraged capital structure marked by its high gearing of 2.77 times (PY – 4.04 times) as on March 31, 2022, which was primarily due to higher closing balance of the fund-based limit as on year-end date coupled with the GECL - Term loan of Rs. 1.63 crore and its relatively low net worth base of Rs. 3.82 crore as on March 31, 2022, respectively. The coverage indicators remained moderate with interest coverage of 1.93 times and DSCR of 1.11 times in FY2022.

Intense competition and regional concentration of sales

Although the firm is a sole authorised dealer for M&Ms in most of its catchment areas, its sales and profitability remain susceptible to intense competition from dealers of other OEMs in the regions. The dealers have to pass on additional benefits to customers to increase sales, owing to stiff competition from other manufacturers, which affects their profitability to an extent. The sales of the firm are regionally concentrated with its revenue being entirely dependent on the state of Assam.

Cyclical nature of automobile industry

The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the movement in interest rates and fuel prices. A hike in interest rate, increases the costs associated with the purchase leading to purchase deferral. Fuel prices have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The firm thus faces significant risks associated with the dynamics of the auto industry.

Risk inherent in partnership firm with instances of capital withdrawn
Given the constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the inherent risk of dissolution of the firm upon death, retirement, or insolvency of the partners.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity profile of the firm is expected to remain adequate in the near to medium term as the projected GCA is expected to be sufficient during FY23-25 to meet the debt repayment obligations. The average working capital utilisation remained at 90% during the last 12 months ending in February 2022, imparting low liquidity buffer. The average collection period of the firm remained low at around 11 days in FY2022, since majority of the vehicles are financed by banks/financial institution.

About the Company

Incorporated in May 2010, Assam-based, G.D. Motors is a partnership firm founded by Mr. Santosh More and Mr. Abhishek More as the Partners with equal profit-sharing ratio. The firm started its commercial operation in January 2012. The firm is an authorised dealer of Mahindra & Mahindra Limited (M&M's) and operates six showroom (sales outlets) and two workshops located across multiple locations of Assam. It deals in entire range of passenger cars, and light commercial vehicles. Further, the firm also derives income from after sales service, sale of the spare-parts coupled with income in the form of performance-based incentives and discounts from M&M's, insurance income, etc.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited
Total Income	53.35	60.43
EBIDTA	2.23	2.42
PAT	0.32	0.40
Total Debt	12.38	10.56
Tangible Net Worth	3.07	3.82
EBDITA Margin (%)	4.20	4.01
PAT Margin (%)	0.61	0.66
Overall Gearing Ratio (x)	4.04	2.77

**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 Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	0.98	IVR B+/ Stable	-	-	-
2.	Cash Credit	Long Term	9.00	IVR B+/ Stable	-	-	-
3.	Channel Finance	Long Term	3.00	IVR B+/ Stable	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	December 2026	0.98	IVR B+/ Stable
Cash Credit	-	-	-	9.00	IVR B+/ Stable
Channel Finance	-	-	-	3.00	IVR B+/ 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-GDMotors-apr23.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 www.infomerics.com.