Press Release

Hira Automobiles Limited

February 16, 2024

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	47.25 (reduced from 53.13)	IVR BB-/ Stable (IVR Double B Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities	8.87	IVR BB-/ Stable (IVR Double B Minus with Stable outlook)	Assigned	Simple
Total	**56.12 (Rs Fifty Six crore and twelve lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Hira Automobiles Limited (HAL) derives strength from its established track record of operations and experienced management, steady improvement in its scale of operations and profitability, and strong brand recognition of Maruti Suzuki India Limited (MSIL). However, the rating is constrained on account of its inherently low profitability margins, moderate financial risk profile and inadequate debt coverage metrics, intense competition and regional concentration of sales, working capital intensive nature of operations, and cyclical nature of automobile industry.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins
- Improvement in debt protection metrics
- Improvement in working capital cycle and liquidity position

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and experienced management

The company commenced its operation in 1989 and has a successful track record of operation across Punjab. HAL has more than three decades of experience in the automobile – trading segment. Long experience of HAL promoters and its established track record of operations strengthens the operational risk profile of the company. The company's day-to-day operations are looked after by Mr. Rahulinder Singh Sidhu (Managing Director) and Mrs. Neha Sidhu (Director) along with a team of experienced professionals.

Steady improvement in its scale of operations and profitability

After a subdued FY21, the topline has witnessed a moderate improvement in FY22 backed by rise in demand of vehicles post lockdown period, consequently the total operating income stood at Rs.224.32 crore in FY22, backed by increase in sales volume from 2733 units in FY21 to 3193 units in FY22 coupled with higher average sales realization. The TOI increased to Rs 248.96 crore in FY23 compared to Rs 224.32 crore in FY22, backed by higher realisations of cars sold. The company generated an absolute EBITDA Rs. 9.61 crore in FY22. EBITDA for FY23 was Rs 10.07 crore. The EBITDA margin increased was 4.29% in FY22 and it dipped to 4.05% in FY23. The Company generated a PAT of Rs.0.62 crore in FY22, and Rs 0.75 crore in FY23 and GCA of Rs 1.89 crore in FY22, and Rs 2.14 crore in FY23. The PAT margins improved progressively from 0.27% in FY22 to 0.30% in FY23. The EBIDTA margin is thin owing to the nature of the industry. Though the PAT margin improved marginally from FY22 to FY23, it continues to remain thin owing to the nature of industry and high interest cost.
Further, the company has generated a topline of Rs. 122.52 crore in H1FY24 as compared to Rs. 115.84 crore in H1FY23, witnessing a YoY growth of 5.77%. The EBITDA witnessed a YoY growth of ~1% which increased from Rs. 5.20 crore in H1FY23 to Rs. 5.25 crore in H1FY24.

Strong brand recognition of MSIL

HAL's principal, MSIL, is the market leader in the Indian PV segment with a market share of 41.7% in 2023. Thus, the demand of Maruti cars across India is stable and the situation is the same in Punjab. Therefore, it is safe to assume that barring any economic slowdown, growth of Hira Automobile should be steady in the medium to long term.

Key Rating Weaknesses

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., MSIL). Although MSIL is the market leader, HAL's profitability is exposed to pricing pressure from other OEMs. However, the company has been witnessing moderate improvements in EBIDTA margin over the years, it has improved from 2.74% in FY20 to 4.05%-4.29% in FY21-23. The improvement in EBIDTA margin was on account of lower overhead cost coupled with a rise in a share of high margins products in the revenue. However, the PAT margin remained very low in the range of 0.14%-0.30% between FY21 and FY23.

Moderate financial risk profile and inadequate debt coverage metrics

The financial profile of HAL is characterised by high gearing of 5.99 times as on March 31, 2023 (PY 6.32 times) owing to high GECL - term loans and high utilisation of working capital borrowings and relatively low net worth of Rs.12.98 crore as on March 31, 2023 (PY Rs. 12.23 crore). The coverage indicators also remained stretched with interest coverage of 1.24 times and DSCR of 0.89 times in FY2023 owing to thin profitability. Further, the management has stated that the shortfalls in GCA for servicing the debt repayment obligations are managed through infusion of unsecured loans by promoters.

Intense competition and regional concentration of sales

Although the company is a sole authorised dealer for MSIL 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 are regionally concentrated with its revenue derived from Punjab region.

Working capital intensive nature of operations

Inventory management is crucial for HAL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. Instances of build-up of inventory normally take place during the year end in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 66 days in FY23 (~71 days in FY22). 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 company remained moderate at around 35 days in FY23 (39 days in FY22). On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high.

Further, the average working capital utilisation was high at ~94% during the last 12 months ending in October 2023, which imparts low liquidity buffer.

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 company thus faces significant risks associated with the dynamics of the auto industry and the economic cycle.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity – Stretched

The liquidity profile of HAL is expected to remain stretched marked by its expected cash accruals of around ~Rs.2.35 crore to ~Rs.2.96 crore during FY24-26 vis -a-vis its debt repayment obligations ranging from ~Rs.3.20 crore to Rs.4.88 crore. However, the management has stated that expected short falls in cash flows to meet the debt servicing obligations in the projected years will be met through infusion of unsecured loans by promoters in the company. Further, the average working capital utilisation was high at ~94% during the last 12 months ending in October 2023, which imparts a low liquidity buffer.

About the Company

Incorporated in July 1989, Punjab-based, Hira Automobiles Limited (HAL) is promoted by Smt. Rajinder Kaur Bhattal (ex – Chief Minister of Punjab), Mr. Hardev Kaur, Mr. Rahulinder Singh Sidhu, Simran Bajwa and Manjeet Kaur Sangha. The company is an authorised dealer of Maruti Suzuki India Limited (MSIL) and operates twelve showroom (sales outlets) and eleven workshops located across multiple locations of Punjab. It deals in diverse products of passenger cars and used cars. Further, the company 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 MSIL, insurance income, etc. It has more than three decades of experience in the automobile – trading segment. Long experience of HAL promoters and its established track record of operations strengthens the operational risk profile of the company. The company's day-to-day operations are looked after by Mr. Rahulinder Singh Sidhu (Managing Director) and Mrs. Neha Sidhu (Director) along with a team of experienced professionals.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	224.32	248.96
EBIDTA	9.61	10.07
PAT	0.62	0.75
Total Debt	77.27	77.83
Tangible Net Worth	12.23	12.98
EBDITA Margin (%)	4.29	4.05
PAT Margin (%)	0.27	0.30
Overall Gearing Ratio (x)	6.32	5.99

**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 (Dec 22, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	8.92	IVR BB-/ Stable	IVR BB-/ Stable	-	-
2.	Cash Credit	Long Term	34.70	IVR BB-/ Stable	IVR BB-/ Stable	-	-
3.	Inventory Funding	Long Term	12.50	IVR BB-/ Stable	IVR BB-/ Stable	-	-
4.	Electronic Dealer Finance System (eDFS)	Long Term	-	-	IVR BB-/ Stable	-	-

Name and Contact Details of the Rating Analyst:

Name: Shantanu Basu Tel: (033)- 46022266 Email: shantanu.basu@infomerics.com	Name: Sandeep Khaitan Tel: (033)- 46022266 Email: sandeep.khaitan@infomerics.com

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).

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

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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 1	-	-	February 2027	2.00	IVR BB-/ Stable
Term Loan 2	-	-	August 2029	1.05	IVR BB-/ Stable
Term Loan 3	-	-	September 2038	5.87	IVR BB-/ Stable
Cash Credit	-	-	-	34.70	IVR BB-/ Stable
Inventory Funding 1	-	-	-	7.50	IVR BB-/ Stable
Inventory Funding 2	-	-	-	5.00	IVR BB-/ 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-Hira-Automobiles-feb24.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.