



## Press Release

### Hira Automobiles Limited

December 22, 2022

#### Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	53.13	IVR BB-/ Stable (IVR double B minus with Stable outlook)	Assigned	Simple
<b>Total</b>	<b>53.13</b> <b>(INR Fifty-three</b> <b>crore and</b> <b>thirteen lakh</b> <b>only)</b>			

#### 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, improvement in topline and profits in FY22 and H1FY23, and strong brand recognition of MSIL. However, the ratings are 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



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### 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.

##### **Improvement in topline and profits in FY22 and H1FY23**

The topline has witnessed a moderate improvement in FY22 on the back of a rise in demand of passenger vehicles post lockdown period, consequently the total operating income stood at Rs.224.32 crore in FY22, on account of increase in sales volume from 2733 units in FY21 to 3193 units in FY22. The company has generated an absolute EBITDA of Rs. 8.58 crore in FY21 and Rs. 9.61 crore in FY22 respectively. It generated a PAT of Rs. 0.35 crore in FY21 and Rs.0.71 crore in FY22 respectively and GCA of 1.71 crore in FY21 and 0.62 crore in FY22 respectively. The company has generated a topline of Rs. 115.80 crore in H1FY23 as compared to Rs. 87.86 crore in H1FY22 witnessing a YoY growth of ~31.75%. consequently, the EBITDA has witnessed an YoY growth of ~52.93% which increased from Rs. 3.37 crore in H1FY22 to Rs. 5.16 crore in H1FY23.

##### **Strong brand recognition of MSIL**

HAL's principal, MSIL, is the market leader in the Indian PV segment with a market share of ~43.38% in FY2022. However, MSIL's market share contracted in the current year on account of the semiconductor shortage issue. Nevertheless, gradual easing of the issue will support HAL's revenue growth, going forward. The demand remained healthy in FY2022, but the semiconductor issue limited growth to about 15-20%. Revenue growth during FY2023 is also expected to be moderate at 10-14% as the supply delays from OEMs are expected to continue over the next few months.



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### **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 EBITDA margin over the years, it has improved from 2.74% in FY20 to 4.20% in FY21 and 4.29% in FY22 respectively. The PAT margin stood at 0.27% in FY22 (PY 0.14%).

#### **Moderate financial risk profile and inadequate debt coverage metrics**

The financial profile of HAL is characterised by high gearing of 6.32 times as on March 31, 2022 (PY 6.66 times) primarily owing to high utilisation of working capital borrowings and relatively low net worth of Rs.21.39 crore as on March 31, 2022 (PY Rs. 20.38 crore). The coverage indicators also remained stretched with interest coverage of 1.25 times and DSCR of 0.77 times in FY2022 owing to thin profitability and high debt repayment obligation. The shortfalls in the cash flows 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



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discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 72 days in FY22 (~80 days in FY21). 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 39 days in FY2022. 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 92% during the last 12 months ending in October 2022, 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.

**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 in the near to medium term as the projected GCA is expected to be insufficient during FY23-25 to meet the debt repayment obligations. The expected shortfalls 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 92% during the last 12 months ending in October 2022, which imparts low liquidity buffer.



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### **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):**

For the year ended* / As on	(Rs. crore)	
	31.03.2021	31.03.2022
	<b>Audited</b>	<b>Audited</b>
Total Income	204.44	224.72
EBIDTA	8.58	9.61
PAT	0.29	0.62
Total Debt	77.35	77.27
Tangible Net Worth	11.62	12.23
EBDITA Margin (%)	4.20	4.29
PAT Margin (%)	0.14	0.27
Overall Gearing Ratio (x)	6.66	6.32

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**



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### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			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	4.43	IVR BB-/ Stable	-	-	-
3.	Cash Credit	Long Term	34.70	IVR BB-/ Stable	-	-	-
4.	Inventory Funding (INF)	Long Term	9.50	IVR BB-/ Stable	-	-	-
6.	Electronic Dealer Finance System (eDFS)	Long Term	4.50	IVR BB-/ 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](http://www.infomerics.com)



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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	-	-	FY2027	0.59	IVR BB-/ Stable
Term Loan 2	-	-	FY2029	3.84	IVR BB-/ Stable
Cash Credit	-	-	-	34.70	IVR BB-/ Stable
Inventory Funding 1 (INF)	-	-	-	7.50	IVR BB-/ Stable
Inventory Funding 2 (INF)	-	-	-	2.00	IVR BB-/ Stable
Electronic Dealer Finance System (eDFS)	-	-	-	4.50	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-dec22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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](http://www.infomerics.com).

