Press Release

Jaika Automobiles & Finance Pvt. Ltd

May 26th, 2022

Ratings

Instrument Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities – Term Loan	32.64	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Long term Bank Facilities – Working Capital Limits	34.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities -	28.75	IVR A4 (IVR Single A Four)	Assigned	Simple
Total	**95.39 (Ninety Five Crores and Thirty Nine Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Ratings (IVR) has assigned long-term rating/Short Term rating of IVR BB-/A4 with a Stable outlook for the bank loan facilities of Jaika Automobiles & Finance Private Limited (JAFPL).

The rating draws comfort from the experience of the promoters in automobile dealership business along with wide dealership network & company's established market position with long standing relationship with Original Equipment Manufacturers (OEMs) and JAIKA's diversified revenue profile, adequate debt protection metrics and financial risk profile during FY21 and FY22(P). However, these strengths are partially offset by decline in total operating income, thin profitability margins inherent to dealership business, working capital intensive nature of operations, susceptibility to intense competition with dealers of other OEMs in the passenger segment and cyclical nature of the automobile industry

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins
- Improvement in debt protection metrics
- Sustenance of the analysed gearing below 1.20x

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 operations in 1983 and has a successful track record of more than three decades in the existing line of business. Overall activities of JAFPL are managed by Mr. Prafulla Kale being the Chairman cum Managing Director. He has experience of more than 30 years in the automobile dealership business. He is ably supported by other directors, who have effective experience in automobile dealership business as well as supported by qualified and well experienced management team.

Established market position as a leading dealer for TML's CVs in Chhattisgarh:

JAFPL is among the leading dealers of TML in Chhattisgarh, and has a diversified presence, dealing in the entire range of CVs. The company operates from five 3S (Sales, Spares & Services) facilities and six 1S (Sales) facilities across various districts. In FY2022, approximately 69% of the company's revenue came from sales in the M&HCV (Medium & Heavy CV) segment, while the rest came from the L&SCV (Light & Small CV) segment, pick-up trucks and buses.

Adequate debt protection metrics and financial risk profile:

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) marginally improved to 1.23x in FY2021 as compared to 1.15x in FY2020, and the debt service coverage ratio (DSCR) marginally decreased to 1.11x in FY2021 as compared to 1.20x in FY2020. The Adjusted tangible networth improved to Rs. 41.46 crore in FY2021 from Rs. 31.72 crore in FY2020. Overall analysed gearing improved to 2.59x in FY2021 from 3.12x in FY2020.

Key Rating Weaknesses

Decline in total operating income:
The total operating income (TOI) declined by ~57.95% to Rs. 205.82 crore in FY2021 from Rs. 491.91 crore in FY2020. The TOI declined as their sales were impacted due to the Covid-19 induced lockdown across India till mid of June 2020, therefore initial 6 months of business was significantly affected and then gradually improved. However, in FY22 the company achieved TOI of 234.70 crore.

Thin profitability margins inherent to dealership business:
The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. Operating profit margins increased to 7.53% in FY2021 from 3.77% in FY2020, as the company downsized its employee strength during the year, reduced interest cost and rental cost. PAT margins also increased to 0.30% in FY2021 from 0.16% in FY2020. JAFPL also faces revenue concentration risk, as its entire revenues are solely dependent on a single principal, TML.

Working capital intensive nature of operations:
Inventory management is crucial for JAFPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. The operations of JAFPL are working capital intensive given the need to maintain inventory. However, with the short supply of vehicles from the principal due to the ongoing semi-conductor chip shortage, the inventory levels have come down in FY21 leading to reduced working capital limit utilisation. The same is expected to normalise with the increase in consumer demand for owning and maintaining personal vehicles.

Intense competition and regional concentration of sales
The company faces competition from dealers of other original equipment manufacturers (OEMs), along with dealers from the same principal resulting in increased pressure to pass on price discounts to customers. The sales are regionally concentrated with its revenue derived from Chattisgarh region.

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 entities
Financial Ratios & Interpretation Non- Financial Sector

Liquidity – Adequate

The company has streched liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 26.56 crore, as on 31 March 2021. Against a current portion of long-term debt (CPLTD) of Rs 4.67 crore in FY21, the company had a cash accrual of Rs. 4.19 crore in FY21. The company projected to generate cash accruals of Rs. 4.89 crore in FY22 against a CPLTD of Rs. 6.98 crore. Furthermore, the company has got sanction of additional GECL (Guaranteed emergency credit line) loan of Rs. 13.99 crore under schemes of RBI to support Micro, small and medium enterprise (MSME) sector during the covid-19 pandemic.

About the Company

Established in 1954, the Jaika Group began its journey on 2nd November, 1954, with the founding of Jaika Motors in association with Tata Motors. Today, the Group has not only completed 66 years of mutual trust with Tata Motors, expanding the relationship to a number of fields, it has diversified and grown into a conglomerate of 10 companies with a combined annual turnover of over Rs 1931 crores.

In the process, Jaika group has also established tie-ups with a number of world class companies such as Hyundai, Fiat/Jeep, Kia, Bharat Petroleum, Shimnit Utsch India and Crossword Bookstores to name some, and deals in a variety of products ranging from all types of vehicles, petroleum derivatives and insurance broking to a host of financial solutions.

JAFPL is a private limited company incorporated on 05th Dec 1981 under the leadership of Mr. Prafulla Kale and was awarded the dealership of Tata Motors Limited (TML) for Raipur.

Over the years, JAFPL has grown its size by opening outlets across Chhattisgarh and has nine showrooms and six workshops across the state Raipur, Anjora, Jagdalpur, Balodabazar, Bhilai, Saraipalli, Mahasamund, Balod, Bemetra, etc.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	491.91	205.82
EBITDA	18.56	15.50
PAT	0.77	0.62
Total Debt	99.02	116.42
Tangible Net worth*	33.97	34.79
EBITDA Margin (%)	3.77	7.53
PAT Margin (%)	0.16	0.30
Overall Gearing Ratio (x)	3.12	2.59

**as per Infomerics standards*

Status of non-cooperation with previous CRA : N.A

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	32.64	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	-	-	-
2.	Cash Credit	Long Term	34.00	IVR BB-/Stable (IVR Double B			

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
				Minus with Stable Outlook)			
3.	Inventory Funding	Short Term	24.00	IVR A4 (IVR Single A Four)			
4.	Trade Advance	Short Term	4.75	IVR A4 (IVR Single A Four)			

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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 in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Term Loan	-	-	-	32.64	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)
Long Term Bank Facilities- Working capital				34.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)
Short Term Bank Facilities- Inventory Funding				24.00	IVR A4 (IVR Single A Four)
Short Term Bank Facilities- Trade Advance				4.75	IVR A4 (IVR Single A Four)

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Jaika-Automobiles-May22.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