Orange Auto Private Limited
October 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	6.97	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	-	Assigned	**Simple**
Short Term Bank Facilities	73.03 (includes proposed limit of 7.48)	IVR A4+ (IVR A Four Plus)	-	Assigned	**Simple**
Total	**80.00 (INR eighty crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of Orange Auto Private Limited (OAPL) derives strength from extensive industry experience of the promoters in the automobile industry, association with various reputed Original Equipment Manufacturer (OEM)s, steady improvement in its scale of operations and profitability, and efficient working capital cycle. However, inherently low profit margins due to dealership nature of business, leveraged capital structure with moderate coverage indicators, intense competition and regional concentration of sales, and cyclical nature of automobile industry are rating constraints.

The outlook is expected to remain stable as the entity will continue to benefit from long track record of operations and the extensive experience of the promoters.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure with improvement in the debt protection metrics

Downward Factors

- Decline in operating income and/or profitability impacting the cash accruals on a sustained basis
- Any substantial stretch in the operating cycle impacting the liquidity of the business

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive industry experience of the promoters in the automobile industry

The company commenced its operation in 2004 and has a successful track record of operation across Hyderabad. OAPL has more than two decades of experience in the automobile – trading segment. Their extensive experience in the automotive dealership industry has equipped the promoters with a thorough understanding of market trends, supplier networks, and customer needs.

Association with various reputed OEMs

The company is an authorized dealer of Honda Motorcycle and Scooter India Pvt. Ltd., Fiat Chrysler Automobiles, Tata Motors Limited, Kawasaki Motors Ltd., and Harley Davidson.
Associations with these OEMs act as a significant diversification to an automobile dealer. These partnerships offer a range of benefits that can enhance a dealer's reputation, customer base, and overall business performance.

Steady improvement in its scale of operations and profitability

The scale of operations of the company continued to improve over the past three fiscals. It increased slightly by ~1% during FY24(Provisional) (refers to the period 1st April 2023 to 31st March 2024) and the company achieved a topline of INR 295.48 Cr in FY24 (Provisional) compared to INR 292.85 Cr during FY23 (refers to the period 1st April 2022 to 31st March 2023). The reason for such growth is attributable to the increase in quantity of sales. OAPL's EBITDA margin remained thin at around 2.83%-4.30% over the past three fiscals till FY24(Provisional). It witnessed improvement in operating margin from 3.77% during FY23 to 4.30% during FY24(Provisional) due to higher margin service works. Similarly, the PAT margin of the company increased from 0.69% during FY23 to 0.83% in FY24(Provisional). During Q1FY25, the company achieved revenue of ~Rs.85.55 crore.

Efficient working capital cycle

The company has managed its working capital requirements prudently and implemented an effective receivables management system. The collection period was in the range from 3 to 10 days in the past three years ending March 31, 2024 (Provisional). Accordingly, its operating cycle was at 61 days in FY24 (Provisional). The working capital requirement of the company is mainly funded through bank borrowings. The company's average working capital utilization of the sanctioned bank limits was comfortable at around 14.01% in the 12 months ended August 2024.

Key Rating Weaknesses

Inherently low profit margins due to dealership nature of business

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., TML and others). OAPL's EBITDA margin remained thin at around 2.83%-4.30% over the past three fiscals till FY24(Provisional).

Aggressive capital structure with moderate coverage indicators

The financial profile of OAPL is characterized by high gearing of 5.04 times as on March 31, 2024(Provisional) (PY 5.32 times) owing to term loans and high utilisation of working capital borrowings with relatively low net worth of Rs.14.91 crore as on March 31, 2024(Provisional) (PY Rs. 10.72 crore). TOL/TNW also stood high at 5.58 times as on 31st March 2024. The financial risk profile is estimated to improve further during FY25 on account of repayment term loan during that period. The coverage indicators of the company remained moderate over the years marked by its moderate interest coverage ratio. The interest coverage ratio has improved from 2.05x as on 31st March 2023 to 2.16x as on 31st March 2024(Provisional) driven by rise in EBITDA, however, it continues to remain moderate. With increase in total debt higher than increase in EBITDA and gross cash accruals, Total debt to EBITDA and Total debt to GCA has deteriorated from 5.17x and 10.36 years as on 31st March 2023 respectively to 5.91x and 12.86 years respectively as on 31st March 2024(Provisional).

Intense competition and regional concentration of sales

Although the company is an authorized dealer for TML, HMSI and others, 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 their revenue derived from the Hyderabad 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 and the economic cycle.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies.

Criteria on assigning rating outlook

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Financial Ratios & Interpretation (Financial Sector/Non- Financial Sector)

Liquidity – Adequate

The liquidity profile of OAPL is expected to remain comfortable marked by its expected cash accruals of around ~Rs.8.36 crore to ~Rs.12.43 crore during FY25-27 vis -a-vis its debt repayment obligations ranging from ~Rs.2.82 crore to Rs.1.98 crore. Moreover, the average working capital utilisation was low at ~14% during the last 12 months ending in August 2024, which imparts sufficient liquidity buffer.

About the Company

Established in 2004, the company initially focused on General Motors dealerships but has since expanded its operations to include dealerships for a diverse range of brands, including Honda Motorcycle and Scooter India Pvt. Ltd., Fiat Chrysler Automobiles, Tata Motors Limited, Kawasaki Motors Ltd., and Harley Davidson. With a significant presence in multiple cities across Andhra Pradesh and Telangana, the company has achieved remarkable growth. Key milestones include the opening of its first General Motors dealership in Hyderabad in 2005, the addition of Honda motorcycles and scooters to its portfolio in 2009, and the expansion of its network through multiple showrooms and workshops. The company has achieved a significant turnover of approximately 300 crores and sold over 14,500 vehicles. Today, the company operates in various segments, including passenger cars, motorcycles, scooters, and commercial vehicles, and provides comprehensive services, including sales, service, and spare parts.

Financials (Standalone): **(Rs. crore)**

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	292.85	295.48
EBITDA	11.03	12.72
PAT	2.02	2.45
Total Debt	57.01	75.17
Tangible Net Worth	10.72	14.91
EBITDA Margin (%)	3.77	4.30
PAT Margin (%)	0.69	0.83
Overall Gearing Ratio (x)	5.32	5.04
Interest Coverage (x)	2.05	2.16

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

CRISIL Ratings migrated the rating of Orange Auto Private Limited in the Issuer Non-Cooperating category as the entity did not cooperate in the rating procedure despite repeated follow ups as per the Press Release dated October 22, 2024.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long Term	2.76	IVR BB+/ Stable	-	-	-
2.	GECL	Long Term	0.66	IVR BB+/ Stable	-	-	-
3.	Cash Credit	Long Term	3.55	IVR BB+/ Stable	-	-	-
4.	e-DFS	Short Term	71.03*	IVR A4+	-	-	-
5.	Inventory Funding	Short Term	2.00	IVR A4+	-	-	-

**Includes proposed e-DFS of Rs. 7.48 crore*

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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).

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	Jun 2030	2.76	IVR BB+/ Stable
GECL	-	-	-	Nov 2025	0.66	IVR BB+/ Stable
Cash Credit	-	-	-	-	3.55	IVR BB+/ Stable
e-DFS	-	-	-	-	63.55	IVR A4+
Inventory Funding	-	-	-	-	2.00	IVR A4+
Proposed e-DFS	-	-	-	-	7.48	IVR A4+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-OrangeAuto-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: NA

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.