



Press Release

Shree Automotive Private Limited

October 13, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	149.50	IVR BB+; Positive (IVR Double B Plus with Positive Outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Long-Term Bank Facilities (Proposed)	12.77	IVR BB+; Positive (IVR Double B Plus with Positive Outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Total	162.27 (INR One hundred sixty-two crore and twenty-seven lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Shree Automotive Private Limited (SAPL) continues to consider extensive industry experience of its promoters in the automobile dealership segment with established market position in West Bengal and its diversified range of product and services. The ratings also note improvement in its scale of operations and profit levels in FY23 (Provisional). However, these rating strengths continues to remain partially offset due to inherent low margin nature of its business with non-existence of bargaining power, linkage to the fortunes of Ashok Leyland Limited (ALL) and Mahindra & Mahindra Limited (M&M) with inherent risk from external factors, working capital intensive nature of its operation leading to leveraged capital structure with below average debt protection metrics and exposure to cyclical nature of the automobile industry. The outlook of the company remained positive on the back of expected improvement in its financial performance and financial risk profile in the near term.

Key Rating Sensitivities:

Upward factors



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- Substantial and sustained growth in scale of operations with improvement in profitability and cash accrual on a sustained basis and consequent improvement in liquidity
- Improvement in capital structure and in debt protection metrics with improvement in overall gearing to below 2.5x and interest coverage to remain over 1.5x
- Improvement in working capital management with improvement in liquidity.

Downward Factors

- Moderation in operating income and/or moderation in profitability and cash accrual impacting the debt protection metrics on a sustained basis
- Withdrawal of subordinated unsecured loan from promoters and related parties leading to deterioration in overall gearing to over 4x and/or moderation in interest coverage ratio to below 1x
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of the promoters**

SAPL has been promoted by one Kedia family of Kolkata, who had been associated with the automobile industry over three decades and had established healthy relationship with the principals. The overall affairs of the company are managed by Mr. Sharad Kumar Kedia and his two sons, Mr. Saurabh Kedia and Mr. Abhishek Kedia. Mr. Sharad Kumar Kedia is involved in overseeing of the financial operations of the company, and his two sons Mr. Saurabh Kedia (an MBA from IIM Bangalore) and Mr. Abhishek Kedia looks after the marketing and administration aspects of the company. Mr. Saurabh Kedia has also held the prestigious position of Treasurer of Federation of Automobile Dealers Associations of India.

- **Established market position in distributorship in West Bengal**

SAPL has an established presence as authorized dealer for Ashok Leyland Limited (ALL) since 2002 & Mahindra & Mahindra Limited (M &M) since 2003 for commercial vehicles and spare parts and services in West Bengal. SAPL is enjoying healthy relationship with them and



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have the first right of refusal for dealer of specified territories with both of its principals. The OEMs sign the dealership contract for a period of three years, and it gets renewed after the said period. SAPL has being awarded as the anchor dealer in West Bengal by ALL. ALL & M&M are among the leading automobile players of the country. Presently it runs six Showrooms three workshops for M&M's and 12 workshops and 15 sales point of ALL's vehicles in Kolkata, Howrah, Hooghly, Midnapur, Murshidabad, Birbhum and North & South 24 Parganas 24 Parganas (all in West Bengal).

- **Diversified range of products and services offered**

SAPL is having dealership rights of well diversified products and its operations are widespread across specified territories/districts of West Bengal. Their portfolio includes Light Commercial Vehicle (LCV), Medium Commercial Vehicle (MCV) and Passenger vehicles (PV) by M&M, and Heavy Commercial Vehicles (HCV) by ALL and earth moving equipment's like loaders, excavators, compactors, motor graders, etc by CNH. Besides, the company also offers spare parts and services through its workshops across the state.

- **Improvement in business performance in FY 23**

Total operating income of SAPL after a subdued FY21 has witnessed a significant improvement in FY22 backed by rise in demand of commercial vehicles post lockdown period. Consequently, the total operating income stood at Rs.519.83 crore in FY22 which further improved to Rs.701.61 crore in FY23 (Provisional). The improvement is backed by increase in sales volume from 3070 units in FY22 to 3574 units in FY23 coupled with higher average sales realization. The absolute EBITDA and GCA has improved and stood at Rs.29.48 crore and Rs.5.52 crore respectively in FY23 against Rs.20.90 crore and Rs.3.29 crore in FY22. Till August 2023 SAPL has already managed to churn out revenue of ~Rs.297 crore.

Key Rating Weaknesses:

- **Linked to the fortunes of Ashok Leyland Limited (ALL) and Mahindra & Mahindra Limited (M&M) and inherent risk from external factors**

SAPL being an authorized dealer of ALL and M&M and is vulnerable to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of ALL's and M&M's vehicles in the market and their ability to launch new products as per the market dynamics. Further, SAPL, like other players in the automobile, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as evasion of tax 4 rates,



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fluctuation in prices of fuel, initiative taken by government to reduce carbon print like BSVI emission norms, shifting investment to electric vehicles, change in customer demands etc.

- **Inherent low margin business with non-existence of bargaining power and pricing constraints**

The company operates on a fixed margin basis wherein prices and margins are fixed by the principals. Product pricing is level marked by the principal companies at the time of dispatch, thereby restricting the company to earn incremental margins. SAPL also lacks bargaining power due to its dependence on such large principals that set policies, targets, and link incentive-based income to satisfactory compliance of such policies. Hence, despite significant increase in revenue, EBITDA margin has marginally improved from 4.02% in FY22 to 4.20% in FY23 (Prov.) owing to higher purchase price and other overhead costs. Further, affected by higher working capital utilization during FY23, the PAT margin though improved, yet remained thin at 0.49% in FY23 against 0.17% of FY22.

- **Working capital intensive nature of operations**

Inventory management is crucial for SAPL 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 has improved stood at around 63 days in FY23 (~83 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 59 days. On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high. The working capital utilisation levels of the company remains high at around 98% during the last 11 months ended in August 2023.

- **Leveraged capital structure with stretched debt protection metrics**

The company has a leveraged capital structure mainly due to its working capital-intensive nature of operations and its modest net worth base of Rs.55.12 crore as on March 31, 2023. Including the subordinated unsecured loan of Rs.14.55 crore the adjusted tangible net worth (ATNW) has improved to Rs.69.67 crore leading to an improvement in adjusted overall gearing to 3.09x as on Mar.31, 2023 against 3.60x as on March 31, 2022. Total indebtedness as



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reflected by TOL/ATNW though improved, remains moderate at 3.23x as on March 31, 2023, against 3.72x as on March 31, 2022.

- **Cyclical nature of the automobile industry**

The automobile industry is inherently vulnerable to the economic cycles and is highly sensitive to the 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 of assigning rating outlook](#)

Liquidity: Adequate

The liquidity of the company appears to be adequate on the back of expected steady growth in its topline underpinned by healthy demand of CVs on the back of rising economic activities. Further, time to time infusion of unsecured loans by the promoters to support the business also imparts some comfort. However, the liquidity position is restricted due to its tightly matched expected gross accruals against its debt repayment obligations in FY24 and high average utilisation in its working capital limits at ~97% in the past 11 months ended August 2023.

About the Company

Kolkata based Shree Automotive Private Limited (formerly known as Shree Automobiles Pvt Ltd) was incorporated in February 2000, by Mr. Sharad Kumar Kedia and Late Shri Nathmal Kedia and other family members based in Kolkata. It is an ISO 9001:2008 certified company. The company is an authorized anchor dealer of Ashok Leyland Limited (ALL) for Heavy & Medium Commercial Vehicle (CVs), Mahindra & Mahindra Ltd (M&M) for Light CVs and Passengers Vehicle (PVs) across various territories and districts of West Bengal.

Financials of Shree Automotive Private Limited (Standalone):



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For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	519.83	701.61
EBITDA	20.90	29.48
PAT	0.89	3.40
Total Debt	214.34	215.55
Adjusted Tangible Net worth	59.56	69.67
EBITDA Margin (%)	4.02	4.20
PAT Margin (%)	0.17	0.49
Adjusted Overall Gearing Ratio (x)	3.60	3.09
Interest Coverage Ratio (x)	1.21	1.31

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23 (July 28, 2022)	Date(s) & Rating(s) assigned in 2021-22 (May 26, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	58.00	IVR BB+ Positive	IVR BB+ Stable	IVR BB+ Stable	-
2.	Inventory Financing	Long Term	91.50	IVR BB+ Positive	IVR BB+ Stable	IVR BB+ Stable	-
3.	Proposed	Long Term	12.77	IVR BB+ Positive	IVR BB+ Stable	IVR BB+ Stable	-
4.	Term Loan	Long Term	-	-	IVR BB+ Stable	IVR BB+ Stable	-

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About Infomerics Ratings:

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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit 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. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	58.00	IVR BB+; Positive
Long Term Fund Based Limits – Inventory Financing	-	-	-	91.50	IVR BB+; Positive



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Long Term Fund Based Limits – Fund Based Proposed	-	-	-	12.77	IVR BB+; Positive
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Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Shree-Automotive-oct23.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.

