



INDIAN AUTOMOBILE DEALERSHIP INDUSTRY

**Elevated inventory levels to impact
passenger vehicle dealers' earnings
in FY2025**

July 2024





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Stable wholesale volumes coupled with slowdown in retail sales led to elevated inventory holding of 62-67 days as on June 2024 at PV dealerships.

ICRA expects inventory holding to remain at higher-than-average levels in the near term.

Increased discounts and high debt levels (owing to elevated inventory holding) are likely to impact earnings and debt metrics of PV dealerships.



- **The domestic passenger vehicle (PV) sales volumes registered an all-time high level of 4.2 million units in FY2024**, representing a growth of 8% on a YoY basis. However, even as underlying demand drivers remain supportive, domestic PV volume growth is expected to moderate to 3-6% in FY2025 on account of a high base and waning replacement demand, which supported the industry growth over the past couple of years. While wholesale volumes grew by 3% in Q1 FY2025 on a YoY basis, retail volumes contracted by 7%.



- **Inventory holding at PV dealerships increased to ~62-67 days (against average of 30-35 days) as on June 2024**, as per the Federation of Automobile Dealers Association (FADA) because of steady production and a slowdown in retail sales as extreme heat and the Lok Sabha elections impacted retail footfalls. Inventory levels are expected to remain at an elevated level in the near term, impacting dealerships' margins.



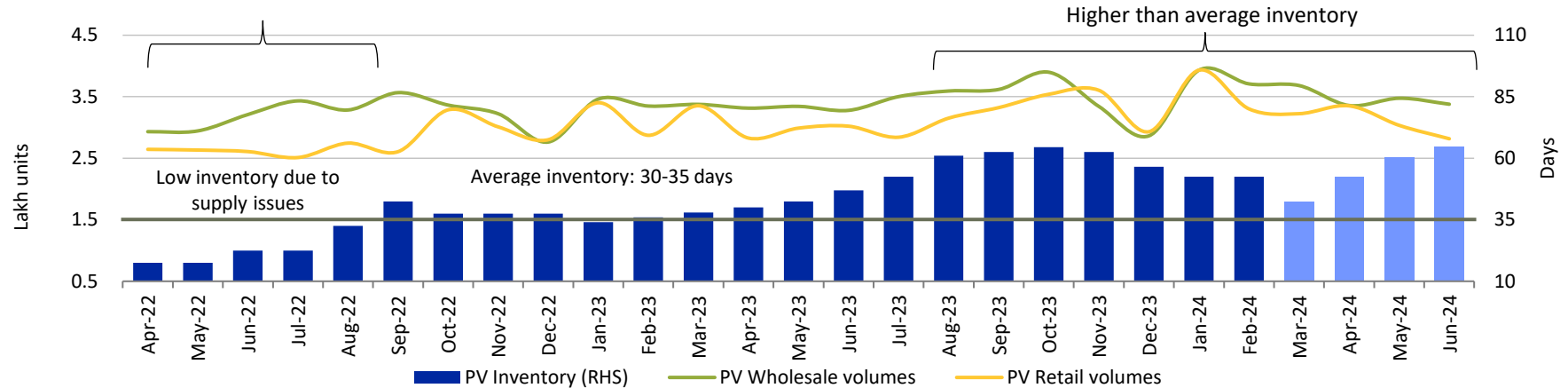
- **Elevated inventory holding led to increase in discounts being offered by dealerships, along with the original equipment manufacturers (OEMs)**, which impacted the operating margins of dealerships. Operating margins of ICRA's sample set are estimated to have moderated by 40-70 bps in FY2024 owing to high discounts.



- **ICRA's sample set of 20 dealerships is estimated to have recorded a revenue growth of ~11-13% in FY2024**, driven by growth in volumes and realisations amid better product-mix. Despite the healthy revenue growth in FY2024, rise in inventory holding and contraction in margins moderated the credit metrics of PV dealerships. Revenue growth is expected to moderate to mid-to-high single digits in FY2025 with lower volume growth. ICRA projects operating margins to moderate by ~50-100 bps in FY2025 as dealerships continue to offer discounts given the high inventory holding apart from higher stock holding costs. Timely correction in inventory holding remains critical for improvement in debt metrics.

Stable supply and muted retail sales result in elevated inventory holding

Exhibit 1: Trend in monthly wholesale and retail PV volumes, and PV inventory



Source: FADA, ICRA Research

- Inventory levels at PV dealerships have been higher than average since August 2022, led by healthy wholesale production levels and softening demand. While inventory holding is typically higher during the festive season (September to November), stock levels remained elevated over the past two quarters, with some moderation in March 2024 on account of improved retail sales and year-end push by dealers.
- However, stock holding at PV dealerships increased to ~62-67 days (against average of 30-35 days) in June 2024 as extreme heat, implementation of model code of conduct and the Lok Sabha elections impacted retail footfalls. Inventory levels are expected to remain elevated in the near term, impacting dealerships' margins.

Elevated inventory levels leading to higher discounts and borrowing costs

Higher discounts



Elevated inventory levels at PV dealerships led to sharp increase in discounts in FY2024. While discounts were higher on slow-moving models, the OEMs and dealerships have now started offering discounts on a few high demand models as well to ensure a stronger booking pipeline.

Increased interest costs



Debt levels of PV dealerships have also increased in the past few quarters owing to high working capital borrowings, given the consistently high inventory holding, which resulted in a sharp increase in interest costs, thereby impacting the earnings.

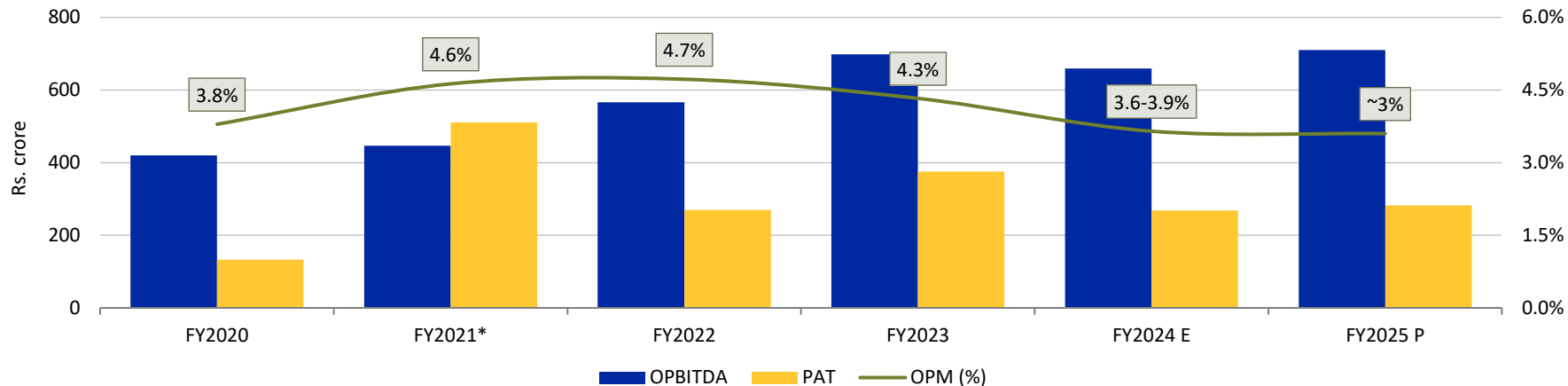
Lower margins



Increased discounts, high stock holding costs and moderation in sales growth to impact operating margins of PV dealerships in FY 2025. Lower operating margins and higher interest costs would impact net profit margins.

Moderation in margins owing to high discounts and borrowing costs

Exhibit 2: Trend in dealers' profits and margins

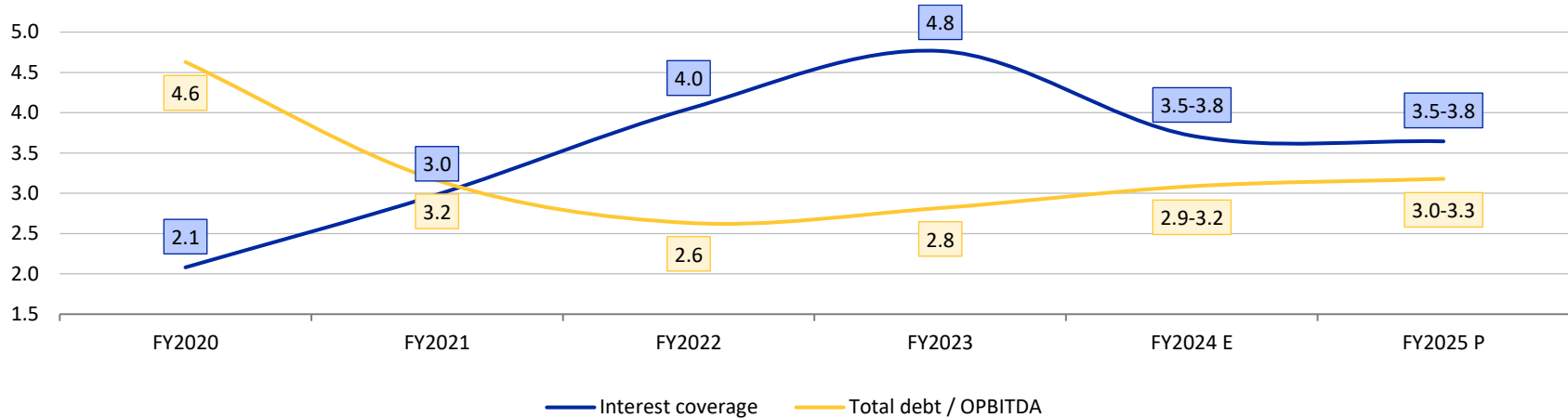


Source: ICRA Research; Based on ICRA's sample of 20 dealerships; *PAT affected by extraordinary income in one of the samples

- Operating margins for auto dealerships are inherently thin as low-margin vehicle sales dominate the revenue mix. Operating margins of ICRA's sample set are estimated to have moderated by 40-70 bps in FY2024 owing to discounts. ICRA expects margins to moderate by ~50-100 bps in FY2025 as dealerships continue to offer discounts given the high inventory holding.
- Despite a healthy revenue growth, net profit of dealerships has been impacted by lower operating margins and higher interest cost owing to enhanced working capital borrowings. ICRA expects net profit margins to remain flat in FY2025.

Moderation in credit metrics foreseen in FY2025

Exhibit 3: Trend in dealers' coverage and leverage metrics

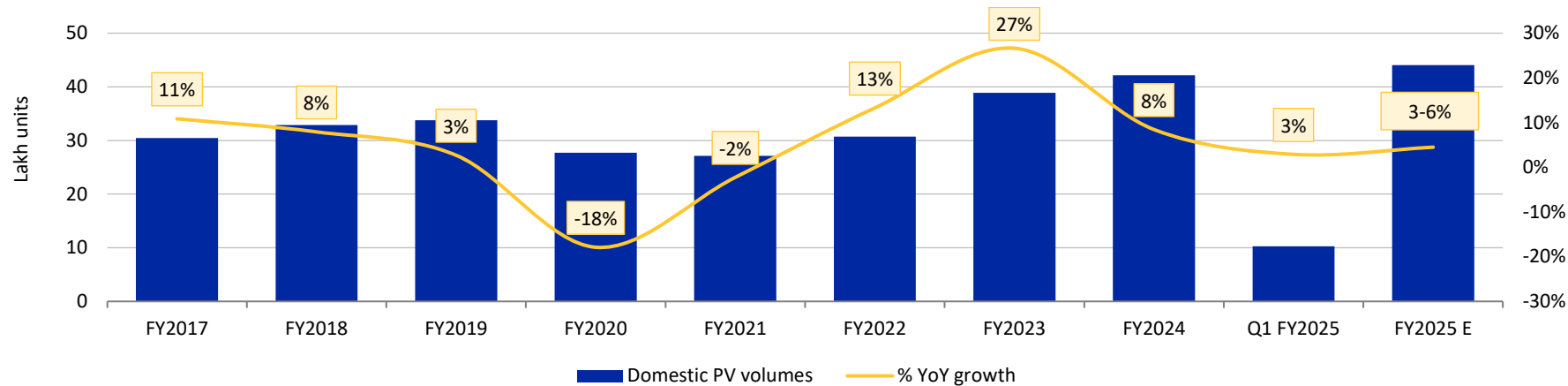


Source: ICRA Research; Based on ICRA's sample of 20 dealerships

- During FY2021 – FY2023, credit metrics of ICRA's sample set were supported by lower debt (on account of lower inventory holding requirements), increased scale with growth in both volumes as well as realisations, and higher earnings owing to better operating leverage. However, increased inventory holding and contraction in margins are estimated to have led to moderation in the credit metrics in FY2024. Timely correction in inventory holding remains critical for improvement in debt metrics, going forward.

Growth in domestic PV sales expected to moderate

Exhibit 4: Trend in yearly domestic PV volumes

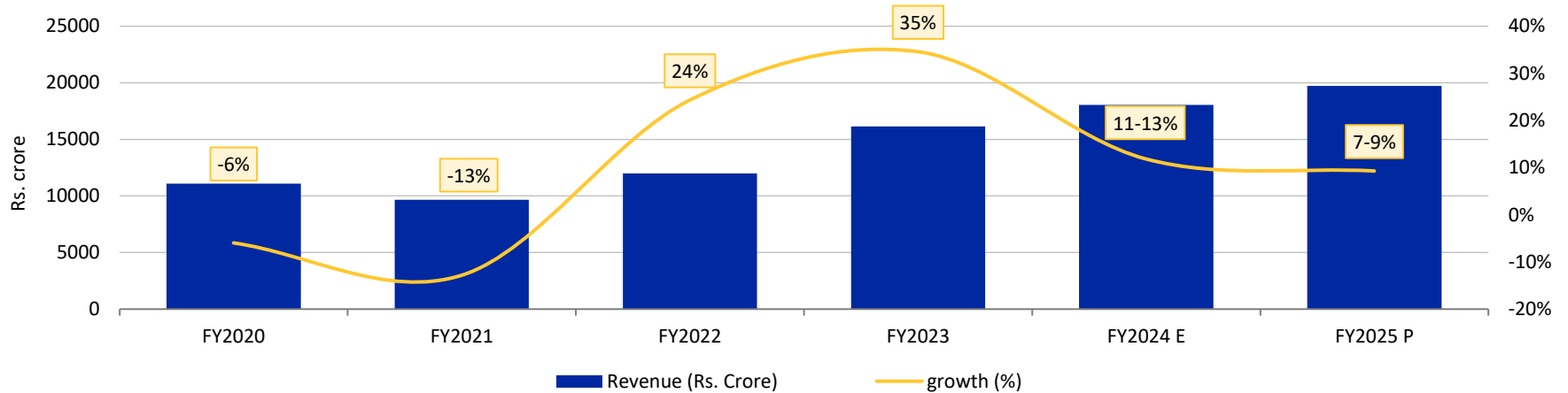


Source: SIAM, ICRA Research

- After contracting during the Covid-19 pandemic, domestic PV volumes clocked healthy growth in the past three years, recording all-time high volumes in FY2024.
- Domestic PV volume (wholesale) growth moderated to 3% in Q1 FY2025. High base and waning pent-up demand is expected to moderate the industry's growth to 3-6% in FY2025.

Revenue growth to be driven by volume growth, better product mix

Exhibit 5: Trend in dealers' revenue growth



Source: ICRA Research; Based on ICRA's sample of 20 dealerships

- ICRA's sample set of PV dealerships is estimated to have recorded a healthy revenue growth of ~11-13% in FY2024, driven by growth in volumes and realisations amid better product-mix; however, revenue growth is expected to moderate to mid to high single digits in FY2025, driven by the product mix, while volume growth is expected to be modest.

Upgrades outpaced downgrades considerably in the past 18 months

Exhibit 6: ICRA's rating distribution in auto dealership sector

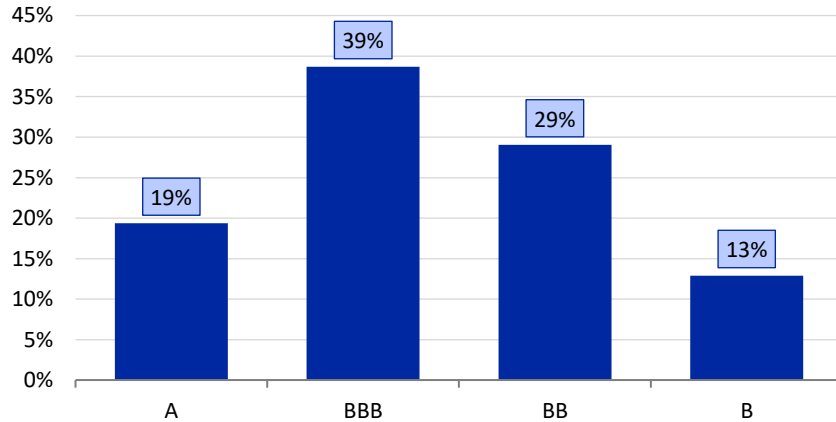
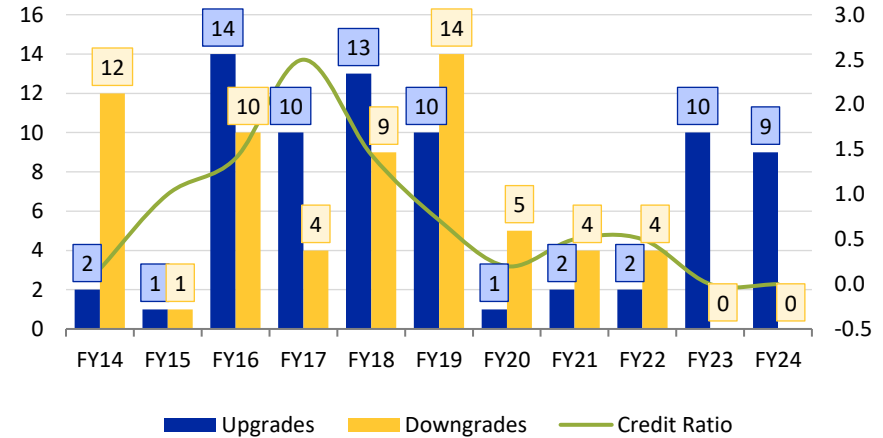


Exhibit 7: ICRA's rating movements in auto dealership sector



- As on June 25, 2024, ICRA had ratings outstanding on 31 automobile dealerships companies with majority of them catering to the PV segment.
- About 58% of ICRA's ratings in the automobile dealership segment are in the investment grade, while the rest are rated in the non-investment grade category.
- During FY2023 and FY2024, 19 entities witnessed a rating upgrade, while there were no downgrades during the same period. Increased scale and improved operating leverage supporting earnings growth led to overall improvement in the credit profile of the rated dealership entities.
- There were no rating changes in Q1 FY2025.

Source: ICRA Research; Note: Rating distribution as on June 25, 2024; Rating movement excludes INC cases

ICRA-rated entities in the automobile dealership sector

Name of Issuer	LT Rating	Outlook / Special Symbol	ST Rating
AVG Motors Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
Bimal Auto Agency India Pvt Ltd	[ICRA]BBB+	Stable	
Chowgule Industries Private Limited	[ICRA]A	Stable	[ICRA]A1
Commercial Automobiles Private Limited	[ICRA]B+	Stable	[ICRA]A4
Globe Automobiles Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
Gulf Ashley Motor Limited	[ICRA]BBB+	Stable	[ICRA]A3+
Jaika Automobiles Private Limited	[ICRA]BB	Stable	
Jayabheri Automotives Private Limited	[ICRA]BB	Stable	[ICRA]A4
Jubilant Motorworks Private Limited	[ICRA]A-	Stable	[ICRA]A2+
Jubilant Performance Cars Private Limited	[ICRA]A-	Stable	[ICRA]A2+
Kothari Cars Private Limited	[ICRA]BBB+	Stable	
Neon Motors Private Limited	[ICRA]BB+	Stable	[ICRA]A4+

Source: ICRA Research; Note: Does not include INC cases

ICRA-rated entities in the automobile dealership sector

Name of Issuer	LT Rating	Outlook / Special Symbol	ST Rating
P.R.Nayak Associates Pvt Ltd	[ICRA]BB+	Stable	
Pillai and Sons Motor Company	[ICRA]BBB	Stable	[ICRA]A3+
Pratham Motors Private Limited	[ICRA]BB	Stable	
Padmaja Motors Private Limited	[ICRA]BBB	Stable	
Ramani Cars Private Limited	[ICRA]BBB	Stable	
RNS Earthmovers Private Limited	[ICRA]BBB	Stable	
RNS Motors Private limited	[ICRA]BBB+	Stable	
Sharma Cars Private Limited	[ICRA]B+	Stable	[ICRA]A4
Shubh Motors Private Limited	[ICRA]B+	Stable	
Sireesh Auto Private Limited	[ICRA]BBB-	Stable	[ICRA]A3
Sree Krishna Automotives Hyd. Pvt. Ltd.	[ICRA]BBB	Stable	[ICRA]A3+
Star Automobiles (MP Limited	[ICRA]BBB-	Stable	
The Mithra Agencies (Hyderabad	[ICRA]BB+	Stable	[ICRA]A4+

Source: ICRA Research; Note: Does not include INC cases

ICRA-rated entities in the automobile dealership sector

Name of Issuer	LT Rating	Outlook / Special Symbol	ST Rating
V.S.T. & Sons Private Limited	[ICRA]A-	Stable	
V.S.T. Motors Private Limited	[ICRA]A-	Stable	
Varun Motors Private Limited	[ICRA]A-	Stable	[ICRA]A2+

Source: ICRA Research; Note: Does not include INC cases



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