

March 10, 2022

Jayabheri Automotives Private Limited: Long-term rating upgraded to [ICRA]BB (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	98.30	98.30	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Long Term – Fund Based – Term loan	17.53	25.95	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Short Term – Non-Fund Based	0.75	0.75	[ICRA]A4; reaffirmed
Long term/Short Term – Unallocated Limit	8.42	0.00	-
Total	125.00	125.00	

*Instrument details are provided in Annexure-1

Rationale

The long-term rating upgrade factors in improvement in Jayabheri Automotives Private Limited's (JAPL) credit profile with improvement in the profitability in FY2021 and rebound in the company's scale of operations in 9M FY2022 driven by healthy demand. While the demand remained healthy in the current year, the semiconductor shortage impacting vehicle supply limited growth to an extent. The ratings also consider the established track record of JAPL as a Maruti Suzuki India Limited (MSIL) dealer in Hyderabad, Visakhapatnam and Vizianagaram markets. It has a wide sales network with 13 sales outlets spread across Hyderabad, Vishakhapatnam and Vizianagaram markets. The ratings also consider the continued market leadership of MSIL as the largest domestic passenger car manufacturer in India.

The ratings are, however, constrained by JAPL's moderate capital structure and debt coverage indicators with gearing of 2.3 times as on December 31, 2021, total outside liabilities/tangible net worth of 3.2 times, and total debt/OPBDITA of 4.2 times in 9M FY2022. The ratings are also constrained by the company's low profitability margin owing to the dealership nature of business and intense competition from MSIL dealers and other original equipment manufacturers (OEMs).

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that JAPL will continue to benefit from its established car dealership business and strong market position of MSIL.

Key rating drivers and their description

Credit strengths

Established track record as MSIL dealer – JAPL is a part of the Jayabheri Group of companies with a presence in automobile dealership, real estate and film production. JAPL is an authorised dealer of passenger cars for MSIL and has a wide sales network through seven 3S facilities, six workshops and three true value facilities in Hyderabad, Vishakhapatnam and Vizianagaram markets.

Improvement in the financial risk profile – The company's credit profile improved with better profitability in FY2021 and rebound in the company's scale of operations in 9M FY2022, driven by healthy demand. While the demand remained healthy in the current year, semiconductor shortage, impacting vehicles' supply, limited growth to an extent.

Credit challenges

Moderate capital structure – The company’s capital structure is moderate with gearing of 2.3 times as on December 31, 2021, with other debt protection metrics remaining moderate—viz., total outside liabilities/tangible net worth of 3.2 times and total debt/OPBDITA of 4.2 times—in 9M FY2022. Going forward, the company’s debt metrics are expected to remain moderate in the near to medium term.

Low profitability margins inherent to the auto dealership business and exposure to high competition – Being in the automobile dealership business, the operating profit margin for JAPL has been thin, despite improving to 4.8% in FY2021 from 3.1% in FY2020 with decline in employee expense. Further, with the company passing on commissions and price discounts to retail customers, and gross margins being controlled by OEMs, these factors exert pressure on profitability. The company faces intense competition from other MSIL dealers and dealers of other car manufacturers such as Hyundai, Honda, and Skoda.

Liquidity position: Adequate

The company’s liquidity is adequate with sufficient cushion of Rs. 10-15 crore in working capital limits against a term loan repayment obligation of Rs. 6-7 crore. Further, the company has moderate capex plans in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade JAPL’s rating if it demonstrates healthy growth in revenues and profitability margins on a sustained basis leading to improvement in debt metrics.

Negative factors – Pressure on JAPL’s rating could arise if there is decline in revenues or profitability margins on a sustained basis. The specific credit metric for a rating downgrade is interest coverage below 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile Dealerships
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financial profile.

About the company

Jayabheri Automotives Private Limited was incorporated in 2011 as a private Limited company. JAPL is an authorised dealer of passenger cars for Maruti Suzuki India Limited in Vizianagaram, Hyderabad and Visakhapatnam. It is part of the Jayabheri Group of companies, which has a presence in real estate (through Jayabheri Properties Private Limited) and film production (through Jayabheri Arts). The company is promoted by Mr. D. Kishore and M. Murali Mohan.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	435.3	425.2
PAT (Rs. crore)	0.1	6.9
OPBDIT/OI (%)	3.1%	4.8%
PAT/OI (%)	0.0%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	9.9	3.8
Total Debt/OPBDIT (times)	8.4	4.2
Interest Coverage (times)	1.3	3.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA: CRISIL had moved the ratings assigned to the bank facilities of Jayabheri Automotives Private Limited to CRISIL B-/Stable ISSUER NOT COOPERATING on April 26, 2017. The rating continues to remain Issuer Not Cooperating as per the release dated January 22, 2021.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Mar 10, 2022	Jan 14, 2021	Sep 26, 2019	Apr 05, 2018	
1	Fund-based – Cash Credit	Long-term	98.30	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)	
2	Fund-based – Term Loan	Long-term	25.95	25.95	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)	
3	Non-Fund-based – Short-term	Short-term	0.75	-	[ICRA]A4	[ICRA]A4	-	-	
4	Unallocated	Long-term/Short-term	-	-	-	[ICRA]BB- (Stable)/[ICRA]A4	[ICRA]B+ (Stable)/[ICRA]A4	[ICRA]BB- (Stable)/[ICRA]A4	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Short Term- Non-Fund Based	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based – Cash Credit	NA	-	-	98.30	[ICRA]BB (Stable)
NA	Fund-based- Term Loans	October 2018	-	March 2027	25.95	[ICRA]BB (Stable)
NA	Non-Fund-based – Short-term	NA	-	-	0.75	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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