

April 04, 2022

Sri Jayarama Automotives Private Limited: Long-term rating upgraded to [ICRA]BB(Stable); short-term rating reaffirmed and ratings removed from 'Issuer not-cooperating' category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/CC	13.00	21.00	[ICRA]BB(Stable) upgraded from [ICRA]B+(Stable) and removed from Issuer Not-cooperating category
Short – term – Non-fund based	4.00	4.00	[ICRA]A4 reaffirmed and removed from Issuer Not-cooperating category
Total	17.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Sri Jayarama Automotives Private Limited's (SJAPL) established position as authorised dealer of Mahindra & Mahindra tractors in Mahabubnagar, Rangareddy, Wanaparthy, Gadwal, Narayanpet and Nagar Kurnool districts of Telangana operating 19 showrooms and workshops and more than three decades of promoter's experience in tractor dealership industry. The ratings also consider Mahindra & Mahindra Limited's (M&M) established position as a market leader in the tractor industry. After a healthy growth of 37.7% in FY2021 on account of strong demand for tractors, the company's revenues are expected to moderate marginally by 8-9% in FY2022. Addition of showrooms and strong response for the new products launched under the YUVO and NUVO brands by M&M also supported SJAPL's revenues. While the revenues are expected to remain healthy, given the demand for tractors, growth in FY2023 is expected to be muted on account of higher base.

The ratings are constrained by SJAPL's moderate financial risk profile with gearing of 2.4 times as on December 31, 2021 and stretched coverage indicators. The company's liquidity position is stretched, given the limited buffer available in working capital limits, high inventory holding and low cash balances. The ratings also consider inherently low operating margins in the auto dealership business, given the pressure to pass on commission or price discounts to the retail customers.

The Stable outlook on the [ICRA]BB rating indicates that the SJAPL will be able to sustain the current scale of operations and maintain profitability, which will improve the coverage metrics and net worth of the company in the near term.

Key rating drivers and their description

Credit strengths

Experienced promoters in tractor dealership business – SJAPL is an authorised dealer of Mahindra & Mahindra (M&M) tractors, spare parts and Exide batteries. The company is promoted by Mr. Ramreddy Bekkari and his wife who have more than three decades of experience in tractor dealership business. SJAPL's group company Sri Rama Engineering is an authorised dealer of TVS motor cycles, mopeds and spare parts. Another group company - Sri Jayarama Motors Private Limited - is an authorised dealer of Maruti Suzuki India Limited in Mahabubnagar district of Telangana.

Sole dealer of M&M tractors in Mahabubnagar – The company is an authorised dealer for M&M tractors. It is the sole dealer in Mahabubnagar district and has presence in Rangareddy, Wanaparthy, Gadwal, Narayanpet, Nagar Kurnool and other areas around Hyderabad in Telangana. The company has 19 showrooms and workshops as on December 31, 2021.

Market leader position of Mahindra & Mahindra in tractors segment – M&M continues to be the market leader in the domestic tractor industry with a market share of 40.6% in 9M FY2022 against 38.2% in FY2021 and 41.2% in FY2020. M&M has

strengthened its market leadership position on the back of a healthy response received for its key products launched under the YUVO and NUVO brands.

Credit challenges

Inherently low profitability margins – Being in the tractor dealership business, the operating profit margins are thin with pressure to pass on commissions and price discounts to retail customers. Also, operating profit margins in the auto dealership business remain under pressure as the price margins are decided by the Original Equipment Manufacturer (OEMs i.e., M&M). Although M&M is the market leader, the company’s profitability is exposed to pricing pressure from other OEMs. Also, SJAPL provides additional discount to promote sales.

Moderate financial risk profile – The financial profile of SJAPL is characterised by high gearing of 2.4 times as on December 31, 2021 owing to increase in working capital borrowings and relatively low net worth of Rs.10.7 crore as on March 31, 2021 and Rs.12.3 crore as on December 31, 2021. The coverage indicators also remained modest with interest coverage of 1.5 times and TD/OPBITDA of 4.6 times for 9M FY2022 owing to thin profitability.

Increased competition, thin margins and weak bargaining position of segment – The competition in the industry is high with many dealers and existing OEMs launching new variants. Further, SJAPL faces increased competition from dealers of Tractor and Farm Equipment Ltd (TAFE), International Tractor Ltd (ITL), and Escorts Limited (EL), constraining its margins.

Vulnerability to agro climatic and political risk – The tractor dealership business is exposed to agro climatic risk, political risk, cyclicity in demand, and competitive pressures.

Liquidity position: Stretched

The liquidity position is stretched with minimal buffer available in working capital limits as on Feb 28, 2022. Average utilisation of CC limits has been at a high 93% in the past 13 months ending February 2022; however, the company availed e-dfs?? limit of Rs.3.75 crore in December 2021 which has not been utilised yet, thus supporting liquidity to an extent. The company also has Rs.3.1 crore in the form of free cash and bank balances as on December 31, 2021 against repayment obligations of about Rs.1.2 crore and capex plan of about Rs.0.5-1.0 crore for the next 12 months

Rating sensitivities

Positive factors – ICRA could upgrade SJAPL’s rating if there is substantial growth in revenues and improvement in coverage metrics and liquidity position of the company. Specific credit metrics that could lead to an upgrade of SJAPL’s rating include an interest cover of more than 2.2 times on a sustained basis.

Negative factors – Negative pressure on SJAPL’s rating could arise if there is a substantial decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in working capital cycle impacting the company’s liquidity position could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a downgrade of SJAPL’s rating include DSCR below 1.1 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	For arriving at the ratings, ICRA has standalone financials of SJAPL

About the company

Sri Jayarama Automotives Private Limited (SJAPL) was incorporated in the year 2005 as a private limited company. SJAPL is a sole authorised dealer of Mahindra & Mahindra tractors and spare parts in Mahbubnagar district of Telangana. The company has presence in Mahabubnagar, Rangareddy, Wanaparthy, Gadwal, Narayanpet and Nagar Kurnool districts of Telangana. It is also an authorised dealer for Exide batteries, CEAT tyres and ELF lubricants in Mahbubnagar district. SJAPL serves as a distributor for tractor trailers and agricultural implements manufactured by its group concern Sri Rama Engineering Company. The company had 19 showrooms and workshops as on December 31, 2021.

Key financial indicators (audited)

	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	178.4	245.5	182.3
PAT (Rs. crore)	0.9	1.5	1.6
OPBDIT/OI (%)	2.8%	2.4%	2.6%
PAT/OI (%)	0.5%	0.6%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	6.0	5.8	6.0
Total Debt/OPBDIT (times)	3.3	4.4	4.6
Interest Coverage (times)	1.4	1.6	1.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Provisionals for 9M FY2022*

Note: Amount in Rs. crore; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	FY2022	FY2021	FY2020
					Apr 04, 2022	Jan 27, 2022	Nov 27, 2020	Aug 29, 2019
1	Cash credit	Long-term	21.0	-	[ICRA]BB (Stable)	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB(Stable) ISSUER NOT COOPERATING	[ICRA]BB(Stable) ISSUER NOT COOPERATING
2	Non fund based	Short term	4.0	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short term – Non-fund based	Very Simple

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	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	21.0	[ICRA]BB(Stable)
NA	Bank guarantee	NA	NA	NA	4.0	[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis: NA

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