

April 04, 2022

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

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/CC	9.75	10.00	[ICRA]BB(Stable) upgraded from [ICRA]B+(Stable) and removed from Issuer Not-cooperating category
Long term – Fund based/TL	1.09	-	-
Short term – Non-fund based	1.00	-	-
Long term/Short term – Unallocated	0.16	2.00	[ICRA]BB(Stable)/[ICRA]A4 Long term rating upgraded from [ICRA]B+(Stable) and short-term rating reaffirmed and removed from Issuer Not-cooperating category
<b>Total</b>	<b>12.00</b>	<b>12.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings consider SJMPL's established track record in the dealership business as the sole authorised dealer for Maruti Suzuki India Limited (MSIL) passenger vehicles for the Mahabubnagar district, operating seven Arena showrooms and workshops and one Nexa showroom. The ratings also consider the established position of MSIL as a market leader in the passenger vehicle segment in India. The company's revenues contracted by 6.2% in FY2021 because of the impact of Covid-19 pandemic; however, volumes recovered in the current year and the company is expected to record a revenue growth of 8-12% in FY2022. While demand for passenger vehicles remains healthy, supply constraints due to semiconductor shortage is expected to limit the revenue growth over the next few quarters.

The ratings are, however, constrained by moderate financial risk profile with high gearing of 2.2 times December 31, 2021, and stretched coverage indicators. The ratings also consider the inherently low operating margins in the auto dealership business with pressure to pass on commission or price discounts to the retail customers. The ratings are also constrained by intense competition in the automobile industry as SJMPL competes with other dealers of MSIL and also with dealers of other OEMs.

The Stable outlook on the [ICRA]BB rating indicates that the SJMPL 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 automobile dealership business** – SJMPL is an authorised dealer of Maruti Suzuki India Limited (MSIL) passenger vehicles. The company is promoted by Mr. Ramreddy Bekkari and his wife who have more than three decades of experience in automobile dealership business. SJMPL's group company, Sri Rama Engineering, is an authorized dealer of TVS motorcycles, mopeds and spare parts. Another group company, Sri Jayarama Automotives Private Limited, is an authorised dealer of Mahindra & Mahindra (M&M) tractors in four districts of Telangana.

**Sole dealer of MSIL passenger vehicles in Mahabubnagar** – The company is sole authorised dealer for MSIL Arena and Nexa in Mahabubnagar district of Telangana with eight showrooms and workshops as on December 31, 2021.

**Strong market position of MSIL in domestic passenger vehicle industry** – MSIL has a strong market position in the passenger car industry with a market share of 43.5% in 9M FY2022, supporting the revenues for dealers like SJMPL.

### Credit challenges

**Inherently low profitability margins** – Being in the automobile 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., MSIL). Although MSIL is the market leader, profitability of the company is exposed to pricing pressure from other OEMs. SJMPL’s scale of operations has remained moderate over the years with revenue of Rs.111.9 crore in FY2021. The company’s revenues contracted by 6.2% in FY2021 because of the impact of Covid-19 pandemic; however, volumes recovered in the current year and the company is expected to record revenue growth of 8-12% in FY2022. While demand for passenger vehicles remains healthy, supply constraints due to semiconductor shortage are expected to limit the revenue growth over the next few quarters.

**Weak financial risk profile** – The financial profile of SJMPL is characterised by high gearing of 1.9 times as on March 31, 2021 and 2.2 times as on December 31, 2021 owing to increase in working capital borrowings and relatively low net worth of Rs.10.0 crore as on March 31, 2021 and Rs.11.2 crore as on December 31, 2021. The coverage indicators also remained modest with interest coverage of 2.2 times and TD/OPBITDA of 5.9 times in 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, SJMPL faces increased competition from dealers of Tata Motor Limited (TML), Hyundai Motors India Limited (HMIL) and other OEMs, constraining its margins.

### Liquidity position: Adequate

Liquidity position is adequate with buffer of Rs.7.0 crore in working capital limits as on December 31, 2021; liquidity improved with enhancement of Rs.6.0 crore in e-dfs (Electronic Dealer finance scheme) limit in December 2021. The company also has Rs.5.8 crore free cash and bank balances as on December 31, 2021 against repayment obligations of about Rs.0.7-0.8 crore for the next 12 months.

### Rating sensitivities

**Positive factors** – ICRA could upgrade SJMPL’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 SJMPL’s rating include an interest cover of more than 2.2 times on a sustained basis.

**Negative factors** – Negative pressure on SJMPL’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 SJMPL’s rating include DSCR below 1.1 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Automobile Dealerships</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has standalone financials of SJMPL

### About the company

Sri Jayarama Motors Private Limited was incorporated in 2011 and is holds the dealership of passenger cars of MSIL. The company is the exclusive distributor of MSIL in Mahabubnagar district, Telangana. It is promoted by Mr. Ram Reddy Bekkari (Managing Director) and his wife Mrs. Jayalaxmi Bekkari. The managing director has more than a decade of experience in dealership business. SJMPL operates through eight showrooms and workshops located in Mahabubnagar.

## Key financial indicators (audited)

	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	119.2	111.9	87.6
PAT (Rs. crore)	0.6	1.0	1.1
OPBDIT/OI (%)	2.8%	3.1%	3.5%
PAT/OI (%)	0.5%	0.9%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.3	2.5
Total Debt/OPBDIT (times)	5.4	5.4	5.9
Interest Coverage (times)	1.3	1.6	2.2

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	Amount Outstanding as of Dec 31, 2021	Date & Rating in Apr 04, 2022	FY2022	FY2021	FY2020
						-	Feb 22, 2021	Nov 27, 2019
1	Cash credit	Long-term	10.0	-	[ICRA]BB (Stable)	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
2	Term loans	Long term	-	-	-	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
3	Non fund based	Short term	-	-	-	-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]B+(Stable) ISSUER NOT COOPERATING
4	Unallocated	Long term / Short term	2.0	-	[ICRA]BB (Stable)/ [ICRA]A4	-	[ICRA]B+(Stable)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B+(Stable)/ [ICRA]A4 ISSUER NOT COOPERATING

Amount in Rs. crore

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Long term – Short term – unallocated	NA

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 analyzing 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](http://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	10.0	[ICRA]BB(Stable)
NA	Unallocated	NA	NA	NA	2.0	[ICRA]BB(Stable)/[ICRA]A4

Source: Company

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

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