February 20, 2023

Chowgule Industries Private Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term, Fund-based/ Non-fund Based Working Capital Facilities	75.00	75.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Long-term/ Short-term – Unallocated Limits	74.46	0.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed and withdrawn
Total	**149.46**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings for Chowgule Industries Private Limited (CIPL or the company) reflects its stable business operations as a leading dealer for Maruti Suzuki India Limited (MSIL) vehicles in western India. ICRA notes the revival visible in CIPL's revenues in FY2022 and 9M FY2023, aided by revival in volume offtake for passenger vehicles (PVs) as the pandemic-related challenges waned. It also continues to maintain a comfortable financial profile with nil debt, and strong liquidity as evidenced from cash and liquid investments of Rs. 82 crore and ample liquidity buffer in the form of undrawn working capital limits of Rs. 75 crore as on December 31, 2022. With healthy cash flow generation, prudent working capital management and limited capex investments, CIPL has been able to maintain a debt-free balance sheet since FY2022, which is expected to continue over the near to medium term.

The rating strengths are partially offset by the intense competition faced by CIPL from other dealerships, and limited bargaining power with its principal original equipment manufacturer (OEM). Regular investment requirement in dealership upgradation, in line with the OEM's policy, keeps the overall cash flows under check. Additionally, as an automotive dealership, the margin profile remains in the single-digit range, although better than most other dealerships. The ratings also factor in CIPL's exposure to Group companies in the form of corporate guarantees, loans and advances and encumbrance of its liquid investments, and notes that any material increase in funding support to Group companies could weigh on its credit profile. Going forward, the company's ability to scale up its business, rationalise investments/support to Group companies and sustain profitability, along with judicious working capital management, remain crucial for maintaining its current credit profile.

ICRA has reaffirmed and withdrawn the ratings assigned to the unallocated bank limits of CIPL at the request of the company, and in accordance with ICRA's policy on withdrawal of credit ratings.

The Stable outlook on the long-term rating factors in ICRA's expectation that CIPL would continue to maintain its operating performance and comfortable financial profile, in the absence of any large debt-funded investments or additional funding support extended to group entities.

Key rating drivers and their description

Credit strengths

Leading MSIL dealer in western India – CIPL is among the leading MSIL dealers in western India with presence across Goa, Pune, Sangli and Satara. According to the management, the company commands a healthy market share in the regions that it operates in, leading to healthy revenues and stable margins over the years. It also deals in commercial vehicles (CVs) of VE Commercial Vehicles Limited (VECV; rated [ICRA]AA+(Stable)/A1+) and Swaraj Mazda Limited (SML; rated [ICRA]A+(Negative)/A1) in the Goa and Kolhapur regions.

Comfortable financial profile – CIPL's coverage indicators remain strong, with gearing of 0.1 time and interest coverage of 17.6 times in FY2022. Moreover, its operating margin is among the best in the automotive dealership industry. Along with prudent working capital management, this translated into a comfortable return indicator (RoCE) of 14% in FY2022. Moreover, CIPL's financial profile draws comfort from a healthy liquidity position, as reflected by healthy cash and liquid investments balance as well as buffer in the form of undrawn working capital limits as on December 31, 2022. This is expected to continue over the near to medium term, with capex outgo to be internally funded, and the revenue growth momentum expected to continue going forward on the back of increasing preference for personal mobility.

Credit challenges

Continued exposure to stressed group companies which could impact CIPL's credit profile – The company had earlier extended financial guarantee of Rs. 141.6 crore towards two of its group entities in FY2020 and FY2021. Over recent years, it has gradually reduced the quantum of corporate guarantees given to group entities, from Rs. 141.6 crore (as on March 31, 2021) to Rs. 85.0 crore (as on March 31, 2022) and further to ~Rs. 60.0 crore (as on December 31, 2022), as per management indications. However, it continues to extend financial support to few group entities in the form of loans and advances (Rs. 73.0 crore as on December 31, 2022) and lien-marked deposits (Rs. 30.1 crore as on December 31, 2022). While the incremental funding support to these entities is expected to be limited, nevertheless, given the sizable exposure of CIPL to stressed group companies, ICRA would continue to monitor developments on this front.

Intense competition from other dealerships – The automotive dealership industry is highly fragmented with intense competition from dealerships of the same principal as well as competing OEMs. Moreover, incremental investment requirement to regularly upgrade dealership outlets, in line with the principal's marketing strategy, keeps the cash flows of dealerships under pressure.

Low profitability in line with the nature of the business – CIPL's operating profit margin has historically remained in the range of 4-6%, as is typical of the automotive dealership industry. Nevertheless, comfort is drawn from CIPL's margins being better than most peers in the sector. Moreover, relatively lower financial costs on account of CIPL's debt-free status and prudent working capital management provide further comfort to its net profit margin.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by unencumbered cash and liquid investments of approximately Rs. 82 crore as on December 31, 2022, along with unutilised bank lines of Rs. 75 crore. Given healthy accruals and the absence of any large capital expenditure as well as no long-term debt exposure at present, the company is likely to generate free cash flows that further support its liquidity profile.

Rating sensitivities

Positive factors – The ratings could be upgraded if the entity shows significant revenue growth and improvement in profitability on a sustained basis, leading to improvement in the financial profile and liquidity position. Reduction in exposure of CIPL towards its group companies on a sustained basis will be critical for a positive rating action.

Negative factors – Any incremental direct or indirect financial support to Group companies, or material deterioration in operating performance, which could have a bearing on its overall credit profile or reduction in interest cover below 5.0 times, on a sustained basis may trigger a rating downgrade. Furthermore, any sustained and significant weakening of its liquidity position can also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Automobile Dealerships] [Policy on Withdrawal of Credit Ratings]
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Chowgule Industries Private Limited.

About the company

CIPL is a part of the 93-year-old, Goa-based Chowgule group of companies. CIPL was established in 1963 as a trading arm of the Chowgule Group and is currently involved in retailing cars for MSIL and CVs for VECV. CIPL has a diversified presence in the western belt of Maharashtra and Goa with mainly owned showrooms in Pune, Satara, Sangli, Kolhapur and Goa. It also deals in spares as well as accessories for vehicles and provides servicing facilities to its customers. As of December 2022, CIPL had 52 outlets, including showrooms and workshops for Arena and Nexa (MSIL), True Value (pre-owned cars) and VECV (CV).

Key financial indicators

CIPL	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	842.9	949.1
PAT (Rs. crore)	33.5	30.6
OPBDIT/OI (%)	7.0%	5.4%
PAT/OI (%)	4.0%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	0.8	0.4
Interest Coverage (times)	11.7	17.6

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

Source: CIPL, 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)					for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					February 20, 2023	January 30, 2023	November 1, 2021	March 15, 2021	January 25, 2021	December 18, 2020	July 18, 2019
1	Fund Based / Non Fund Based Working Capital Limits	Long Term/ Short Term	75.00	0.00	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	-	-	-	-
2	Unallocated Limits	Long Term/ Short Term	74.46	-	[ICRA]A(Stable)/ [ICRA]A1; reaffirmed and withdrawn	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	-	-	-	-
3	Cash Credit	Long Term	-	-	-	-	-	[ICRA]A@ ISSUER NOT COOPERATING	[ICRA]A@	[ICRA]A (Negative)	[ICRA]A (Negative)
4	Term Loan	Long Term	-	-	-	-	-	[ICRA]A@ ISSUER NOT COOPERATING	[ICRA]A@	[ICRA]A (Negative)	[ICRA]A (Negative)
5	Fund Based Limits	Short Term	-	-	-	-	-	[ICRA]A1@ ISSUER NOT COOPERATING	[ICRA]A1@	[ICRA]A1	[ICRA]A1
6	Non Fund Based Limits	Short Term	-	-	-	-	-	[ICRA]A1@ ISSUER NOT COOPERATING	[ICRA]A1@	[ICRA]A1	[ICRA]A1

Source: Company   @: On rating watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term, Fund Based / Non Fund Based Working Capital Facilities	Simple
Long Term / Short Term – Unallocated Limits	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 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, are available on ICRA's website: Click Here

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	Long Term / Short Term, Fund Based / Non Fund Based Working Capital Facilities	NA	NA	NA	75.00	[ICRA]A(Stable)/ [ICRA]A1
NA	Long-term/ Short-term – Unallocated Limits	NA	NA	NA	74.46	[ICRA]A(Stable)/ [ICRA]A1; reaffirmed and withdrawn

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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