March 02, 2023

Malik Cars Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	22.75	30.00	[ICRA]BB(Stable); Reaffirmed
Long-term – Fund-based – Term Loan	3.50	0.00	-
Long-term – Unallocated	5.75	2.00	[ICRA]BB(Stable); Reaffirmed
Total	**32.00**	**32.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating considers Malik Cars Private Limited's (MCPL's) established operational track record as a Tata Motors Limited's (TML's) passenger vehicle (PV) dealer, and the extensive experience of its promoters in the automobile dealership business. The ratings also consider TML's improving market position on the back of strong acceptance of its products and healthy demand for PVs, supporting MCPL's revenue. MCPL's revenue witnessed a healthy growth of 32.4% (annualised) in 10M FY2023 and 108.2% in FY2022 on the back of improved demand. The company is expected to witness a healthy revenue growth of 45-50% in FY2023, driven by healthy demand.

However, the ongoing demerger of a part of the business (which accounted for 25-35% of the company's revenues in the past two years) into a different company is expected to moderate its revenues by 35-45% in FY2024. Post the demerger, MCPL will retain three showrooms and a workshop, and will be managed by Mr. Rajesh Malik (who held 50% stake in the combined entity). Mr. Neeraj Malik, who also held 50% stake in the combined entity, would part his ways with MCPL post the demerger. His stake will be taken over by Ms. Richa Malik. MCPL is expected to largely maintain its capital structure and debt metrics as assets (including inventory and fixed assets) and corresponding liabilities are also expected to be split proportionately between the two demerged entities; however, ICRA will monitor the developments pertaining to the demerger.

The ratings are constrained by the company's moderate scale of operations and thin margins inherent in the auto-dealership business, which is characterised by intense competition among dealers of both TML and other OEMs. The ratings consider MCPL's high geographical concentration as its presence is limited to the Hyderabad (Telangana) region. The ratings are further constrained by MCPL's moderate financial profile characterised by leveraged capital structure and modest debt coverage indicators.

The Stable outlook on the rating reflects ICRA's opinion that MCPL's revenues and earnings will be supported by its established reputation as a TML and TML's improving market position.

Key rating drivers and their description

Credit strengths

Established market position as PV dealer of TML – MCPL, incorporated in 2002, sells TML PVs in the Hyderabad region. The company has an established market position as the dealer of TML's PVs in the Hyderabad market. The management is also involved in the dealership of light commercial vehicles (LCVs) of Ashok Leyland Limited through Malik Motors Private Limited.

Credit challenges

Moderate scale of operations – The company's scale of operations is expected to remain moderate despite a healthy revenue growth of 40–55% expected in FY2023. The company achieved revenues of Rs. 378.5 crore in 10M FY2023 with a volume of 3,938 vehicles against 3,472 vehicles in FY2022. MCPL is expected to achieve revenues of Rs. 430–470.0 crore for the full year FY2023. However, due to demerger of a part of the company's business to a different entity in March 2023, MCPL's revenues are expected to moderate by 35-45% in FY2024.

Moderate financial risk profile – The company's total debt increased to Rs. 59.4 crore as on January 31, 2023, from Rs. 31.0 crore as on March 31, 2022, owing to increase in working capital borrowings given the high inventory holding. The increase in the total debt and nil accretion of profits to reserves in the current year will result in the moderation of the capital structure with TD/TNW between of 3.1–3.3 times and debt coverage metrics with TD/OPBIDTA between 2.9–3.3 times and interest coverage between 3.9–4.2 times in FY2023.

High geographical concentration of revenues – As MCPL's operations are limited to Hyderabad, the company is exposed to competition in the region and any adverse geography-specific event risks.

Increased competition, thin margins and weak bargaining position of players in the segment – The competition in the PV segment is high given the presence of number of dealers and the launch of new variants/ models by OEMs. Further, MCPL faces increased competition from dealers of TML, Maruti Suzuki India Limited (MSIL), Hyundai Motors India Limited (HMIL) and other OEMs, constraining its margins.

Liquidity position: Stretched

The company's liquidity position is stretched, as reflected in the limited buffer available in the working capital and low cash and bank balances of Rs. 0.7 crore as on September 30, 2022. MCPL's retained cash flows are expected to be in the range of Rs. 5.0–7.0 crore against repayment obligations of Rs. 1.1 crore in the next 12 months.

Rating sensitivities

Positive factors – ICRA may upgrade MCPL's ratings if a sustained growth in revenues along with improved profit margins leads to an improvement in the overall credit metrics and liquidity position. Specific credit metrics that could lead to a rating upgrade include interest coverage of more than 2.5 times on a sustained basis.

Negative factors – Pressure on the company's ratings could arise if there is any substantial decrease in revenues and profitability or a stretch in the working capital cycle, weakening its liquidity position. Specific credit metrics that could lead to a downgrade include interest cover of less than 2.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Automobile Dealerships
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Malik Cars was incorporated as a partnership firm in 2002 to undertake the dealership of TML's passenger cars. In December 2009, the firm was converted to Mailk Cars Private Limited. MCPL caters to the Hyderabad–Secunderabad market. MCPL operates six showrooms and two dedicated service centres in Hyderabad. However, given the ongoing internal restructuring of the business between the promoter brothers, the company is expected to operate three showrooms and a service centre in Hyderabad, Telangana from FY2024, while the rest of the business would be spun-off to a different entity. The managing director has more than three decades of experience in the dealership business.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	147.5	307.2
PAT (Rs. crore)	1.1	4.1
OPBDITA/OI	2.8%	2.6%
PAT/OI	0.7%	1.3%
Total outside liabilities/Tangible net worth (times)	2.3	4.3
Total debt/OPBDIT (times)	7.2	3.8
Interest coverage (times)	2.3	4.3

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 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 02, 2023	Feb 21, 2022	Nov 17, 2020	Mar 11, 2020
1	Term Loans	Long Term	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Cash Credit	Long Term	30.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Unallocated	Long Term	2.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash Credit	Simple
Long term – 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	-	-	30.00	[ICRA]BB (Stable)
NA	Unallocated	NA	-	-	2.00	[ICRA]BB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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