

March 29, 2023

Star Automobiles (MP) Limited: 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	10.00	10.00	[ICRA]BBB- (Stable); reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA's rating reaffirmation positively notes Star Automobile (MP) Limited's (SAML) established position as a leading dealer of Mahindra & Mahindra Limited (M&M or the Original Equipment manufacturer, OEM) across 6 districts in Madhya Pradesh and ICRA's expectation that the company will witness healthy revenue growth led by improving demand for the OEM's passenger vehicles (PV) and commercial vehicles (CV). The rating favourably factors in the extensive experience of its promoters in the automobile dealership business. The rating considers SAML's comfortable coverage indicators and adequate liquidity, supported by access to low-cost trade finance facilities.

The rating is, however, constrained by the inherently thin margins in the auto dealership business due to limited bargaining power. The rating notes the company's exposure to the cyclical nature of the Indian CV industry and the intense competition among the dealers of various original equipment manufacturers (OEMs) within the catchment area of operations.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SAML will continue to benefit from its established presence in eastern Madhya Pradesh as well as the stable demand outlook in its end consumer sectors.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in dealership business – SA is a part of the Star Group and its promoters have extensive experience in the automotive dealership space, operating multiple dealerships of different OEMs for PVs, CVs and 2Ws.

Strong market position as one of the leading authorised dealers of M&M in eastern Madhya Pradesh – The Star Group enjoys an established market position as one of the largest authorised dealers of M&M in eastern Madhya Pradesh. Given its presence as a leading dealer of M&M across 6 districts in the state, SAML enjoys a healthy market share in its area of operations. Moreover, M&M has witnessed a healthy performance in current fiscal led by good demand for its key models like Bolero and XUV 700.

Comfortable coverage indicators –SAML does not have any long-term debt and avails working capital funding mainly in the form of overdraft against fixed deposits and low-cost trade advance facilities. Consequently, its debt metrics remain comfortable as reflected by healthy interest cover of 4.4 times and 5.6 times respectively for FY2022 and 10M FY2023 (provisional estimates). The company's financial risk profile is likely to remain similar in the near-to-medium-term with no near-term capex plans and moderate revenue growth.

Credit challenges

Thin margins inherent in auto dealership business – Typically, in a dealership business, the profit margins are thin as trading of vehicles dominate the revenue mix. Also, the low bargaining power of the dealer is reflected in the operating profit margin of 2.5% in 10M FY2023 (provisional).

Vulnerable to inherent cyclicity in automobile industry and competition from dealers of other OEMs – The firm remains exposed to cyclical downturns in the automobile industry. Further, the automotive dealership industry is highly fragmented with intense competition from dealerships of competing OEMs. Additionally, increasing dealer outlets of other OEMs can impact growth.

Liquidity position: Adequate

SAML's liquidity remains adequate, supported by available undrawn lines of credit in the form of working capital limits and access to trade advance facilities from NBFCs including Mahindra and Mahindra Financial Services. The cash credit utilisation of the firm as a proportion of sanctioned limits remained low at 38% over a period of 12 months ending January 2023. There are no long-term debt repayments or any major capex plans.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a significant improvement in sales volume, which results in improvement in its profitability metrics and net cash accruals on a sustained basis. Further, continuance of low reliance on external borrowings and healthy debt coverage indicators may lead to an upgrade.

Negative factors – The rating could be downgraded if lower-than-expected accruals due to a notable decline in revenues and/or profitability, or deterioration in working capital cycle impacts its liquidity and overall financial profile. Interest coverage below 3.0 times, on a consistent basis, could also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Automobile Dealerships
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SAML.

About the company

Incorporated in 2007 as a public limited company, SAML is an authorised dealer for the CVs and PVs of M&M in 6 districts of Madhya Pradesh, with the main outlet in Jabalpur. The company is promoted by Mr. Ramesh Singh and he handles the day-to-day operations. It operates 9 3S showrooms of M&M in Madhya Pradesh.

SAML is a part of the Star Group, which operates automobile dealerships for multiple OEMs such as M&M, Honda Cars India Limited (Honda), Tata Motors Limited (TML), and Hero MotoCorp Limited (Hero) in Madhya Pradesh. Additionally, Star Group has a presence in other sectors such as automobile financing, newspaper printing and insurance broking.

Key financial indicators (audited)

SAML Standalone	FY2021	FY2022	10M FY2023 [^]
Operating income	121.5	138.4	183.2
PAT	1.6	2.2	3.0
OPBDITA/OI	1.4%	2.2%	2.6%
PAT/OI	1.3%	1.6%	1.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	0.8
Total debt/OPBDITA (times)	6.0	4.8	3.2
Interest coverage (times)	6.0	4.4	5.6

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore [^]Provisional figures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in Mar 29, 2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 31, 2021	Oct 30, 2020	Jul 30, 2019
Fund-based 1 – Cash Credit	Long-term	10.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB- (Stable)

Source: Company

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

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Branches



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