November 20, 2024

Gulf Ashley Motor Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based (sub-limit)	(16.00)	(20.00)	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Fund-based	25.00	20.00	[ICRA]A2; reaffirmed
Long-term/ Short-term – Unallocated	85.00	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed
Total	**110.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings outstanding on the bank lines of Gulf Ashley Motor Limited (GAML) remains supported by its strong parentage as Ashok Leyland Limited (ALL; rated [ICRA]AA+(Stable)/[ICRA]A1+), holds a 93% stake in the company. GAML remains strategically important to its parent as it is the sole captive dealer for ALL. Over the years, GAML has aided ALL in establishing itself in underpenetrated regions (mainly eastern India) and create better product acceptance over the years. It has also helped stabilise ALL's market share in the medium and heavy commercial vehicle (M&HCV) segment by gaining a strong foothold in key regions. The company also enjoys strong financial flexibility with its lenders for being a subsidiary of ALL. Strong representation of ALL in GAML's board and operations also acts as an advantage. GAML's revenue rose ~15% to Rs. 265.1 crore in FY2024, aided by a 17% rise in sales volume growth on account of steady demand. However, revenue contracted marginally (~4% YoY basis) in H1 FY2025 on account of slowdown in H1 due to General Elections and erratic rainfalls. Nevertheless, improved demand in H2 FY2025 is expected to support the company's revenues. GAML reported an operating margin of 0.5% in FY2024 against operating loss of 1.1% in FY2023 on the back of cost optimisation measures taken by the company. ICRA expects GAML's margins to remain rangebound, going forward.

The ratings, however, remain constrained by the high vulnerability of GAML's revenues to the cyclicality in the commercial vehicle (CV) industry, and an average financial profile with stretched debt indicators and thin margins inherent in the dealership industry. At present, its dealership network consists of six outlets across two states. Going forward, its performance will remain contingent upon ALL's strategic plans on expanding the distribution network.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's credit profile will remain supported by its strategic importance to ALL and stable demand for M&HCVs.

Key rating drivers and their description

Credit strengths

Strong parentage – GAML's business profile remains supported by its strong parentage, and access to operational as well as financial support from ALL, as seen in the past, which aids in financial flexibility with lenders. It also benefits from the parent's managerial expertise with key positions held by ALL's employees. ALL holds a 93% stake in GAML and uses it for strengthening its presence in the country.

Strategic importance of GAML to ALL in gaining foothold in underpenetrated regions – GAML is the sole captive dealer of ALL, which was established to increase the presence of the latter in India's northern, eastern, and western regions where ALL's market share was low. Over the years, GAML has improved ALL's visibility by continuous dealer expansion across states, which has aided in increasing ALL's market share in these regions. The company has no major capex plan in the near term. GAML will continue to identify underpenetrated regions and set up outlets in these markets.

Presence in eastern India – GAML has a diversified presence in India with six outlets spread across Jharkhand and Assam. Earlier, it was the sole authorised ALL dealer in Assam, Jharkhand, Gujarat, Odisha, Uttar Pradesh and Chhattisgarh. With ALL commanding a reasonable market share in most regions that GAML operates in, and considering the cost of operations, there has been a change in dealership structure in the recent years. Accordingly, the company has gradually exited a few regions. In the last three years, GAML has closed six of its 12 outlets in various states and replaced them with third-party players. Going forward, its performance will remain contingent upon ALL's strategic plans of expanding its distribution network.

Credit challenges

Susceptibility of business to cyclicality in CV industry – With limited presence in the spares and service market (accounted for ~10% of revenues in FY2024), GAML's performance is largely dependent on the cyclical automotive demand in the CV segment and ALL's performance in the regions of its operations. While demand was stable in FY2024, it remained subdued in H1 FY2025 due to General Elections in Q1 FY2025 and monsoons in Q2 FY2025.

Average financial profile – In FY2024, the company's revenues improved to Rs. 265.1 crore, given the healthy demand for CVs, which coupled with cost optimisation measures resulted in the operating profit margin improving to 0.5% in FY2024 from -1.1% in FY2023. However, high interest and depreciation cost resulted in a net loss of Rs. 0.9 crore in FY2024. GAML's debt indicators improved yet remained weak with net losses. In H1 FY2025, the company achieved revenues of ~Rs. 130.0 crore.

Liquidity position: Adequate

The company's liquidity is adequate with expected retained cash flow of Rs. 3.0-6.0 crore for FY2025 coupled with cash and bank balances of Rs. 5.5 crore as on March 31, 2024. Against the said sources of funds, GAML does not have any term loan repayment obligations, nor any significant capex plan in the near term. The parent, ALL, has indicated that it will provide timely and adequate financial support, should there be a need.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings, if it demonstrates a sustained improvement in revenues, profit margins and liquidity, which helps strengthen the financial risk profile.

Negative factors – The ratings may be revised downward if there is weakening in the credit profile of ALL. Pressure on the company's ratings could also arise in case of a sharp deterioration in its credit or operational profile, causing a material decline in revenues or margins, or any further moderation in debt metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology Automobile Dealers
Parent/Group support	Parent Company: Ashok Leyland Limited The ratings assigned to GAML factors in the high likelihood of its parent, ALL, supporting it, given the close business linkages between them; ALL has consistently extended timely financial support to GAML in the form of equity infusion, whenever needed.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Incorporated in 2004, ALL set up GAML primarily to increase its market share in Assam, Jharkhand and Chhattisgarh. ALL's philosophy is to have GAML in regions where it has low market share to increase its visibility and gain market share before gradually exiting the region and leaving third-party dealers to deal in ALL's products. Initially, the company was the sole authorised dealer for ALL's vehicles in these three regions. GAML is currently located at Jamshedpur, Bokaro and Dhanbad in Jharkhand, as well as in Guwahati, Tinsukia, and Tezpur in Assam.

Key financial indicators (audited)

Gulf Ashley Motor Limited	FY2023	FY2024
Operating income	231.1	265.1
PAT	(5.1)	(0.9)
OPBDIT/OI	-1.1%	0.5%
PAT/OI	-2.2%	-0.4%
Total outside liabilities/Tangible net worth (times)	9.2	13.6
Total debt/OPBDIT (times)	(8.0)	17.2
Interest coverage (times)	(1.4)	0.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Nov 20, 2024	Date	Rating	Date	Rating	Date	Rating
Fund Based – Cash Credit – (sublimit)	Long-term	(20.00)	[ICRA]BBB+ (Stable)	26-Oct-2023	[ICRA]BBB+ (Stable)	24-Nov-2022	[ICRA]BBB+ (Stable)	30-Sep-2021	[ICRA]BBB+ (Negative)
Fund Based Working Capital	Short-term	20.00	[ICRA]A2	26-Oct-2023	[ICRA]A2	24-Nov-2022	[ICRA]A2	30-Sep-2021	[ICRA]A2
Unallocated	Long-term / Short-term	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	26-Oct-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	24-Nov-2022	[ICRA]BBB+ (Stable)/ [ICRA]A2	30-Sep-2021	[ICRA]BBB+ (Negative)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based – Cash Credit (sublimit)	Simple
Short Term – Fund Based	Very 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 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 (sublimit)	-	-	-	(20.00)	[ICRA]BBB+ (Stable)
NA	Working Capital Demand Loan	-	-	-	20.00	[ICRA]A2
NA	Long Term/Short Term unallocated	-	-	-	10.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

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

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About ICRA Limited:

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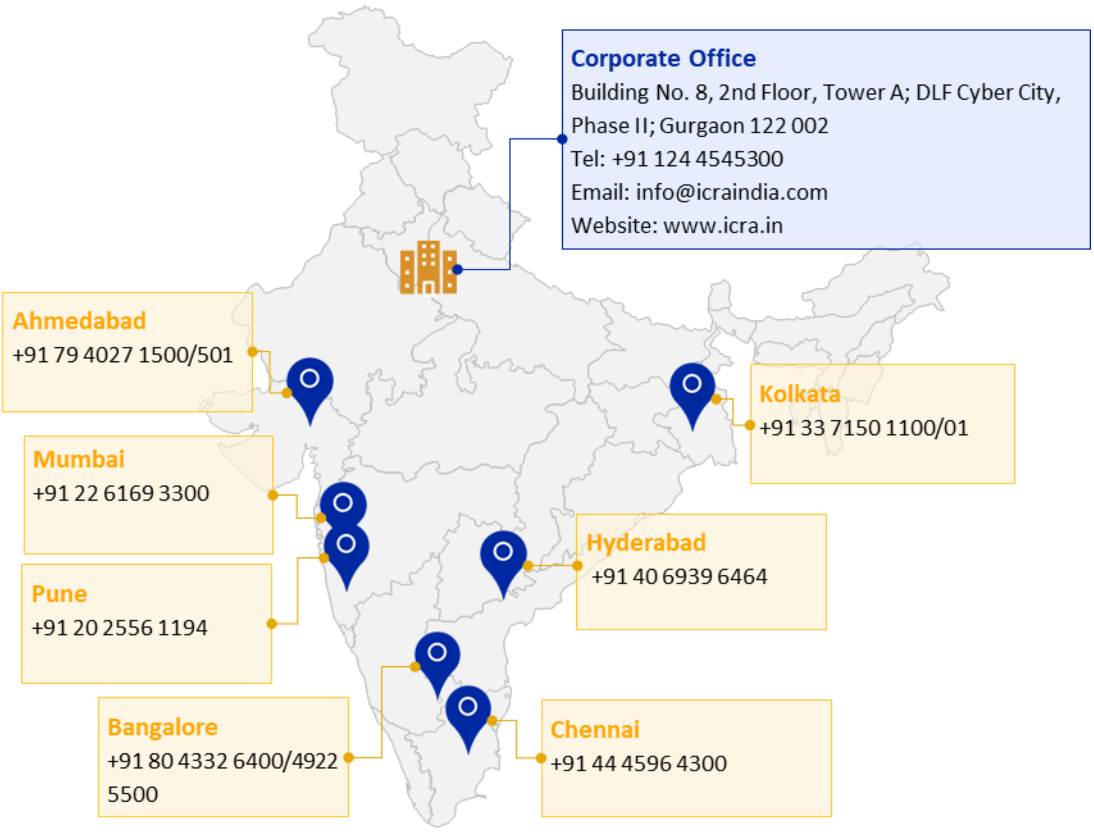

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