

Press Release

Jamkash Vehicleades Private Limited

January 19, 2023



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 97.04 | ACUITE BBB Stable Assigned | - |
| Bank Loan Ratings | 21.20 | - | ACUITE A3+ Assigned |
| Total Outstanding Quantum (Rs. Cr) | 118.24 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

ACUITE has assigned the **long-term rating of 'ACUITE BBB' (read as ACUITE triple B) and the short-term rating of 'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.118.24 Cr bank facilities of Jamkash Vehicleades Private Limited (JVPL). The outlook is **'Stable'**.

Rationale for the rating

The rating takes into account the established relationship with Maruti Suzuki India Limited and extensive experience of the promoters in the vehicle dealership industry. The company continues to enjoy a healthy market share for passenger vehicles (PVs) in its catchment area of operations. The rating also factors in company's healthy debt protection metrics, steady business risk profile and adequate liquidity position. The rating is, however, constrained by the inherently thin margins in the auto dealership business due to limited bargaining power. The rating also notes the company's susceptibility to the cyclical nature of the Indian PV industry and the intense competition among the dealers, along with working capital intensive nature of operations.

About the Company

Incorporated in 1993, Jamkash Vehicleades Private Limited (JVPL), is an authorised dealer for all passenger cars of Maruti Suzuki India Limited (MSIL) in Jammu and Kashmir. It currently operates with 30 sales, service and spares (3S) showrooms of MSIL passenger vehicles in the state. The company has been associated with MSIL since 1995 and is one of its major dealers in North India. The company is promoted by Mr. Devender Rana and Mrs Gunjan Rana. JVPL has fully equipped workshops, customer care and body shop.

The Body shop is the first of its kind in North Region and has been awarded "The Best Body Shop" in All India Dealer's Conference of Maruti Suzuki India Ltd held at Paris in the year 2005.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of JVPL while arriving at the rating.

Key Rating Drivers

Strengths

Long operational track record, experienced management and established market position in Jammu and Kashmir

JVPL has been operating in the vehicle dealership sector for more than 2.5 decades. The promoters, Mr. Devender Singh Rana and Mrs. Gunjan Rana, also have about three decades of combined industry experience. With over 18 showrooms and 13 service stations around the state, the company has a stronghold on the market as the largest MSIL authorised dealer in Jammu & Kashmir. Acuite believes that the long operational track record of JVPL and promoters' extensive understanding and expertise will benefit the company going forward, resulting in steady growth in the scale of operations.

Steady business risk profile

The revenue of the company has increased to Rs.401.28 Cr as on March 31, 2022 as against Rs.377.61 Cr in the previous year majorly due to increase in average realisations. But, the volume was adversely hit by shortage of semiconductors. However, semiconductor availability has been improving on a sequential basis, which along with a healthy demand has helped the company to report a revenue of Rs.323.95 till December 2022 (Prov). Going forward, Acuite believes, the revenue of the company will sustain at the healthy level backed by increasing demand for passenger and commercial vehicle and further easing of semiconductor shortages in the medium term.

The company has been reporting healthy profitability and RoCE on account of the significant revenue contribution from the spares and service income and revival in the demand of PV in the domestic market. The operating margin of the company improved to 6.16 per cent in FY2022 as against 4.28 per cent in the previous year. Further, the EBITDA margin stood at 6.46 per cent for the nine months ended December 2022 (prov). The PAT also improved to 1.87 per cent in FY2022 as against 0.59 per cent in the previous year. Acuite believes that the revenues derived from the higher margin segments including workshop income, sale of spares and accessories shall continue to support the profitability to an extent.

Average financial risk profile

The average financial risk profile of the company is marked by modest net worth, moderate gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs.48.77 Cr as on March 31, 2022 from Rs.40.95 Cr as on March 31, 2021 due to accretion of profits. Acuite has considered unsecured loans of Rs.8.22 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company has steadily improved over the years with repayment of term loans and stood moderate at 1.79 times as on 31st March, 2022 as compared to 2.21 times in the previous year. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.92 times as on March 31, 2022 as compared to 3.22 times in the previous year. The debt protection metrics is marked by Interest Coverage Ratio at 2.04 times and Debt Service Coverage Ratio at 1.59 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on 31st March 2022 as against 0.07 times in the previous year. Acuite believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked high Gross Current Assets (GCA) of 106 days in FY2022 as compared to 93 days in FY2021. The high GCA days are mainly on account of high debtor period which stood at 86 days in FY2022 as compared to 72 days in the previous year. The debtor period is high as the company makes around 50-60 per cent of total sales to institutions which includes Army and other central Government agencies in J&K, from whom the proceeds are generally delayed. Further, the debtor days are high also on account of receivable from insurance companies in workshops. However, the inventory days stood comfortable at 20 days in FY2022 as against 18 days in the previous year. Acuite

believes that the working capital operations of the company will remain at same level as evident from the moderate collection mechanism and comfortable inventory level over the medium term

Exposure to competition in the automotive dealership segment

The company's operations are dependent on Maruti Suzuki India Limited. Though, JVPL is an exclusive dealer of Maruti Suzuki India Limited's entire range of passenger vehicles (PVs) in Jammu & Kashmir, this does not prevent Maruti Suzuki India Limited from appointing any new dealer in J&K. Automotive manufacturers normally encourage multiple dealers in the same area to improve market penetration. Moreover, manufacturers face competition in their respective segments, and tend to squeeze margins of dealers to reduce cost. JVPL also faces competition from dealers of other commercial vehicle manufacturers.

Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.
- Further elongation of working capital cycle.

Material covenants

None.

Liquidity Position Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.10.68 Cr as on March 31, 2022 against long term debt repayment of Rs.2.11 Cr over the same period. The unencumbered cash and bank balance stood at Rs.0.75 Cr and also a free fixed deposit of Rs.6.86 Cr as on March 31, 2022. The current ratio stood moderate at 1.04 times as on March 31, 2022 as compared to 0.96 times in the previous year. However, the fund based limit of the company is utilized at 89.6 per cent over the six months ended November, 2022. Moreover, the company's working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 106 days in FY2022 as compared to 93 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals

Outlook: Stable

Acuité believes that JVPL will continue to benefit over the medium term from its experienced management and established association with MSIL. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements or further elongation of working capital cycle.

Other Factors affecting Rating

None.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 401.28 | 377.61 |
| PAT | Rs. Cr. | 7.52 | 2.23 |
| PAT Margin | (%) | 1.87 | 0.59 |
| Total Debt/Tangible Net Worth | Times | 1.79 | 2.21 |
| PBDIT/Interest | Times | 2.04 | 1.66 |

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|---------------------------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------|
| J&K Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 21.20 | ACUITE A3+ Assigned |
| J&K Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 60.00 | ACUITE BBB Stable Assigned |
| State Bank of India | Not Applicable | Channel/Dealer/Vendor Financing | Not Applicable | Not Applicable | Not Applicable | Simple | 8.00 | ACUITE BBB Stable Assigned |
| Axis Bank | Not Applicable | Channel/Dealer/Vendor Financing | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE BBB Stable Assigned |
| State Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 2.35 | ACUITE BBB Stable Assigned |
| J&K Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 12.00 | ACUITE BBB Stable Assigned |
| Not Applicable | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 0.83 | ACUITE BBB Stable Assigned |
| J&K Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 3.86 | ACUITE BBB Stable Assigned |

Contacts

| Analytical | Rating Desk |
|---|--|
| Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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