



Press Release
Shree Gopinathji Motors Private Limited
August 09, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	81.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	81.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ BB**' (read as **ACUITE double B**) on the Rs. 81.00 Cr. bank facilities of Shree Gopinathji Motors Private Limited (SGMPL). The outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned reflects the strong operating performance of the company in recent years. The revenue of the company grew by a CAGR of 46 percent in last three years on account of increased discretionary spending by consumers and due to the strong performance by the OEM in the market. The industry outlook is very promising in medium term supported by increasing per capita income in the country. Further, the promoters of the company have an extensive experience of over 30 years in the dealership markets through various dealership acquired over the years. Rating also factors in the efficient working capital management by the company, considering the nature of the operations. These strengths are however partially offset by moderate financial risk profile of the company marked with low net worth in the company, SGMPL has moderately highly reliance on the short term EDFs financing to grow. The average utilization was around 88 percent in last six months ended June 2023. Also, the industry in which SGMPL operates is highly competitive and has constrained operating margins as the prices are controlled by the OEMs.

About the Company

Shree Gopinathji Motors Private Limited (SGMPL) is an established dealer of Kia Motors India since 2018. SGMPL has dealership in the various cities of Gujarat namely Vadodara, Bharuch and Godhra region. SGMPL also deals in the resale of used cars, sale of other automotive spare parts and after sale service of automobiles. Promoters of the company have a vast experience of over thirty-five years in the industry. The current directors of the company are Mr. Mayur C Gandhi, Mrs. Divya M Gandhi, Mr. Anant M Gandhi, and Mrs. Hinal A Gandhi.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Shree Gopinathji Motors Private limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operation in industry and Experienced Management

The promoters of the group - Shree Gopinathji have been into the dealership business for the

last thirty-five years by acquiring various dealerships over the years. The group currently also hold the dealerships of Honda Cars India and Renault India Private Ltd, which are registered with other group companies. This extensive experience of the promoter will help them to scale

up business going forward by having better understanding of the industry. The current promoters of the company are Mr. Mayur C Gandhi, Mrs. Divya M Gandhi, Mr. Anant M Gandhi, and Mrs. Hinal A Gandhi. The revenue of the company grew by a CAGR of 46 percent in last three years on account of higher discretionary spends by the consumers. The revenue increased to Rs. 289.8 crore in FY2023(Prov.) as against Rs. 193.83 crore in FY2022 and Rs. 169.56 crore in FY2021.

Acuite believes that the long operational track record coupled with the extensive experience of the management will continue to benefit SGMPL going forward, resulting in steady growth in the scale of operations.

Efficient Working Capital Management

The working capital management of the company is efficient marked by GCA days of 34 days in FY23 (Prov) as against 48 days in FY22. The company maintains inventory levels of around 29 days in FY23 (Prov.) as against 25 days for FY22. Generally, the inventory holding period that the company follows is ~30 days which is for resale of used cars and spare parts business. Subsequently, the debtor's collection period stood at (4) days in FY23 (Prov) as against 1 day for FY22. Furthermore, the creditor days stood at 1 day in FY23 (Prov) as against 2 days in FY22. Generally, the company uses EDFS facility offered by banks to purchase the automobile in which the dealer has to pay in advance to the OEMs. As a result, the reliance of working capital limits in the form of EDFS is reflected by average utilization of around ~88 percent in last 06 months ended June 2023.

Acuite believes that the working capital operations of the company may continue to remain at similar levels going forward considering the nature of operations.

Weaknesses

Moderate Financial Risk Profile

The financial risk profile of the company stood moderate, marked by low net worth, moderate gearing (debt-equity) and moderate debt protection metrics. The tangible net worth stood at Rs.11.04 crore as on 31 March 2023 (Prov) as against Rs.7.48 crore as on 31 March 2022. The gearing (debt-equity) stood at 4.02 times as on 31 March 2023 (Prov) as compared to 1.95 times as on 31 March 2022. The total debt of the company stood at Rs.44.36 crore which includes long-term debt of Rs.21.16 crore which was taken to purchase land and short-term debt of 22.10 crore. as on 31 March 2023 (Prov). Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 4.25 times as on 31 March 2023 (Prov) as against 3.38 times as on 31 March 2022. Further, the debt protection metrics stood moderate with Interest Coverage Ratio stood at 3.3 times for FY2023 (Prov) as against 12.39 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at 2.77 times in FY2023 (Prov) as against 9.48 times in FY2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.1 times for FY2023 (Prov) as against 0.23 times for FY2022.

Acuite believes that going forward, the financial risk profile of the company may improve backed by steady cash accruals against the lower amount of repayment associated with term loan due to longer tenure of the loan and no major debt funded capex plans in near term.

Highly competitive industry with price controlled by OEMs

The companies in this dealership industry have limited operating and profitability margins as prices are controlled majorly by OEMs, depending on the volumes sold by the dealers. The fate of the companies in the industry is extremely dependent on the performance of the OEMs and their market share in the industry. The Automobile industry is very much cyclical in nature and faces a stiff competition from rivals on pricing and features. Any increases in prices by the OEMs can affect the business performance of the dealers. SGMPL currently operates only in a few cities. So, going forward SGMPL needs to increase the dealership reach in other cities to increase realizations for the company. Further, the company faces a stiff competition from the other dealers of same OEM and any other OEMs.

Acuite believes that the margins of SGMPL may continue to remain at similar levels going forward due to the nature of the business.

Rating Sensitivities

- Increasing market share of the OEM in the region where SGMPL operates.
- Any changes in business and financial risk profile of the OEM.
- Improvement in scale of operations while maintaining the profitability margins.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity position is adequate, marked by sufficient net cash accruals against the maturing debt obligations. In addition, it is expected to generate sufficient cash accruals of 3.56 crore against the maturing repayment obligations of Rs.1.10 crore in FY2024. The working capital management of the company is efficient marked by GCA days of 34 days in FY2023 (Prov) as against 48 days in FY2022. The reliance of working capital limits in the form of EDFs is reflected by average utilization of around ~88 percent in last 06 months ended June 2023. The company maintains unencumbered cash and bank balances of Rs.1.46 crore and liquid investments of Rs. 4.00 crore as on March 31, 2023 (Prov). The current ratio stands at 1.10 times as on March 31, 2023 (Prov), as against 1.00 times as on 31 March 2022.

Acuite believes the liquidity position of the company may continue to remain adequate due to steady cash accruals against negligible debt repayment obligations.

Outlook: Stable

Acuite believes the outlook on SGMPL will continue to remain 'Stable' over the medium term backed by its long track record of operations, increasing scale of operations and promising industry outlook over medium term. The outlook may be revised to 'Positive' if the company is able to significantly improve the scale of operations by acquiring the dealerships in other cities, while also maintaining its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the business risk profile of the OEM, leading to lower sales and thereafter affecting the financial and business risk profile of the SGMPL.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	289.80	193.83
PAT	Rs. Cr.	3.56	2.81
PAT Margin	(%)	1.23	1.45
Total Debt/Tangible Net Worth	Times	4.02	1.95
PBDIT/Interest	Times	3.30	12.39

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

ICRA vide its press release dated 20th March 2023, had rated the company to ICRA B+; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitie: <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
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BB Stable Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.30	ACUITE BB Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	21.70	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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