



Press Release
Shree Gopinathji Motors Private Limited
September 02, 2024
Rating Downgraded

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

Rating Rationale

Acuite has downgraded its long term rating to **'ACUITÉ BB-' (read as ACUITE double B Minus)** from **'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'**

Rational for rating downgrade

The rating downgrade considers Shree Gopinathji Motors Private Limited's declining sales and profitability margins, affecting the financial risk profile of the company. The company's operating income stood lower at Rs. 250.47 Cr in FY2024 (Prov.) as against Rs. 290.98 Cr in FY2023. The PAT margins also stood lower at 0.25 percent in FY2024 (Prov.) as against 1.42 percent in FY2023 on account of higher interest expenses. Further, the financial risk profile of the company stood average as seen by the gearing levels of the company which stood higher at 4.01 times as on March 31, 2024 (Prov.) as against 3.82 times in the previous year. The rating also factors in the stretched liquidity of the company as seen by lower NCA as compared to maturing debt repayment obligations for the company. However, the rating continues to derive comfort from the established experience of the management in the dealership market. The rating also factors in the moderate working capital operations of the company as seen by the GCA days of 57 days in FY24(Prov.).

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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 promoter of the group - Shree Gopinathji has 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.

Moderate Working Capital Management

The working capital management of the company is moderate marked by GCA days of 57 days in FY24 (Prov.) as against 40 days in FY23. The company maintains inventory levels of around 42 days in FY24 (Prov.) as against 29 days for FY23. Generally, the average inventory holding period that the company follows is ~30 days which is for resale of used cars and spare parts business. Subsequently, there were no debtor's for the company as on 31st March 2024(Prov.). Generally, the company uses EDFs facility offered by banks to purchase the automobile, in which the dealer has to pay upfront to the OEM. As a result, the reliance of working capital limits in the form of EDFs is reflected by average utilization of around ~66 percent in last 06 months ended May 2024.

Weaknesses

Moderate operations of the company

The company's revenue decreased to Rs. 250.47 crore in FY24 (Provisional) from Rs. 290.98 crore in FY23. This decline was due to lower car sales as compared to previous year and the easy availability of certain KIA models in the market, coupled with the discontinuation of the Kia Carnival in FY24 (Prov.). In contrast, FY23 was marked by exceptional demand for popular models like the Seltos, Karens, Carnival, and Sonet. Company reported a decrease in its operating profit margins to 2.27% in FY24 from 3.08% in FY23. Additionally, the PAT margin also declined to 0.25% in FY24 (Prov.) as against 1.42% in FY23 due to higher interest expense for the company as compared to previous year.

Average Financial Risk Profile

The financial risk profile of the company stood average, marked by low net worth, high gearing (debt-equity) and moderate debt protection metrics. The tangible net worth stood at Rs.12.23 crore as on 31 March 2024 (Prov.) as against Rs.11.61 crore as on 31 March 2023. The total debt of the company stood at Rs. 49.00 crore which consists of long term debt of Rs. 20.91 crore and short term debt of Rs. 28.09 crore as on 31 March 2024 (Prov.). The gearing (debt-equity) stood at 4.01 times as on 31 March 2024 (Prov.) as compared to 3.82 times as on 31 March 2023. Interest Coverage Ratio stood at 1.29 times for FY2024 (Prov.) as against 3.50 times for FY2023. Debt Service Coverage Ratio (DSCR) stood at 1.10 times in FY2024 (Prov.) as against 2.82 times in FY2023. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 4.42 times as on 31 March 2024 (Prov.) as against 4.62 times as on 31 March 2023. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.03 times for FY2024 (Prov.) as against 0.11 times for FY2023.

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.
- Significant improvement in scale of operations and profitability margins.

Liquidity Position

Stretched

SGMPL's liquidity is stretched as seen by its lower net cash accruals which stood at Rs. 1.37 crore against its maturing debt obligation of Rs. 0.79 crore as on 31st March 2024. However, the working capital management of the company is moderate marked by GCA days of 57 days in FY2024 (Prov.) as against 40 days in FY2023. The reliance of working capital limits in the form of EDFs is reflected by average utilization of around ~66 percent in last 06 months ended May 2024. The company maintains unencumbered cash and bank balances of Rs.6.02 crore as on March 31, 2024 (Prov.). The current ratio stands at 1.19 times as on March 31, 2024 (Prov.), as against 0.99 times as on 31 March 2023.

Acuite expects the liquidity of the company to remain stretched as against its 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 and experience of the management in the dealership business. 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 improving its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of further 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	250.47	290.98
PAT	Rs. Cr.	0.62	4.13
PAT Margin	(%)	0.25	1.42
Total Debt/Tangible Net Worth	Times	4.01	3.82
PBDIT/Interest	Times	1.29	3.50

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

Not Applicable

Any other information

None

Applicable Criteria

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Aug 2023	Term Loan	Long Term	21.70	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB Stable (Assigned)
	Proposed Cash Credit	Long Term	14.30	ACUITE BB Stable (Assigned)

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	58.75	ACUITE BB- Stable Downgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.36	ACUITE BB- Stable Downgraded (from ACUITE BB)
Axis Bank	Not avl. / Not appl.	Term Loan	31 Mar 2022	Not avl. / Not appl.	10 Mar 2039	Simple	20.89	ACUITE BB- Stable Downgraded (from ACUITE BB)

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About Acuité Ratings & Research

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