



**Press Release**  
**SELECT CARS**  
**November 08, 2023**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	86.00	ACUITE BBB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	86.00	-	-

**Rating Rationale**

Acuite has assigned its long term rating of '**Acuite BBB**' (read as **ACUITE triple B**) on Rs.86.00 Cr bank facilities of Select cars. The outlook is '**stable**'.

**Rationale for rating assigned**

The rating assigned takes into account the long and established track record of the firm in auto dealership business of Tata Motors in Hyderabad. Further rating is supported by healthy revenue growth to Rs. 670.03 Cr in FY23 from Rs.432.40 Cr in FY2022 and Rs.193.89 Cr in FY21 led by improving demand for Tata Motor's passenger vehicles (PV). Furthermore, rating also factored in moderate financial risk profile and efficient working capital operations. However, rating is partially constrained by inherent thin margins in auto dealership business due to limited bargaining power, risk of capital withdrawal in partnership firms and highly competitive nature of automobile dealer business.

**About the Company**

Select Cars is a partnership firm. The firm incorporated in the year 2019, is an authorized Tata dealership that has acquired Concorde Motors, a direct subsidiary of Tata Motors. Select Cars is a one-stop-shop for the complete range of Tata passenger vehicles, sales, service, and spare parts within the five outlets of Hyderabad. The partners of the firm are Mr. M. Vijay Kumar Reddy, Mr. A. Rama Mohana Rao, Mr. S. Vijay Bhaskar Raju, and Mr. S. Raju A.

**Unsupported Rating**

Not Applicable

**Analytical Approach**

Acuite has considered standalone business and financial risk profile of Select Cars to arrive at its rating.

**Key Rating Drivers**

**Strengths**

**Established market position and long track record of operations**

Select Cars (SC) is partnership firm incorporated in 2019, is an authorised dealer of Tata motors

ltd. SC was incorporated by acquiring Concorde motors, a direct subsidiary of Tata Motors ltd. Firm is managed by partners Mr.M.Vijay Kumar Reddy, Mr. A Rama mohana Rao and Mr.

S. Vijay Bhaskar Raju and Mr.A. Raju. In 2019, SC started its operations with two showrooms in Hyderabad and later added another three showrooms within the Hyderabad city. SC now has total five showrooms located at Begumpet, Alkapur, Chandanagar, Karmanghat and Bachupally and two service centres located at Uppal and sanathnagar. SC generates revenue through sale and service of Tata motors vehicles, firm is also into sale of spare parts for service purpose.

Acuite believes that SC may continue to benefit from its extensive experience of partners and established track record of operations in near to medium term.

### **Healthy growth in revenue**

SC generates 93 percent of its revenue through sale of vehicles and balance income is through sale of spare parts, accessories, warranty sales, reimbursement of labour expenses from Tata motors and income earned through claims and incentives from banks and insurance companies. Firm's revenue increased to Rs.670.03 Cr in FY23 from Rs.432.40 Cr in FY22 and Rs.193.89 Cr in FY21, significant increase in operating revenue is attributable to introduction of new models including CNG and electric vehicles by Tata motors, while bolstering its existing range with new interventions and increase in car sales post pandemic.

### **Moderate financial risk profile**

SC's financial risk profile is moderate marked by moderate capital structure and coverage indicators. Firm's networth stood at Rs.36.14 Cr as on March 31st 2023 as against Rs.21.54 Cr as on March 31st 2022 and Rs.9.24 Cr as on March 31st 2021. Improvement in net-worth is attributable to accretion of profits to reserves. Total debt of the firm consists of only channel finance debt which stood at Rs.56.81 Cr as on March 31st 2023. The debt protection metrics of interest coverage ratio and debt service coverage ratio stood comfortable at 7.76 times as on March 31st 2023 as against 18.88 times as on March 31st 2022 and 7.81 times as on March 31st 2021. The net cash accruals (NCA) to total debt (TD) stood at 0.44 times as on March 31st 2023 as against 0.91 times as on March 31st 2022 and 0.40 times as on March 31st 2021. The total outside liability(TOL) to tangible net-worth(TNW) stood at 2.31 times as on March 31st 2023 as against 2.69 times as on March 31st 2022 and 3.75 times as on March 31st 2021.

Acuite believes that financial risk profile of firm is expected to remain moderate in medium term in absence of any major debt funded capex.

### **Efficient working capital management**

The Working capital operations of SC is efficient marked by Gross current asset (GCA) days of 56 days in FY23 as against 62 days in FY22 and 73 days in FY21. GCA days are majorly dominated by inventory days which stood at 37 days in FY23 as against 34 days in FY22 and 39 days in FY21. Debtor days improved slightly to 15 days in FY23 as against 16 days in FY22 and 17 days in FY21. Efficient working capital management and moderate cash accurels has led to moderate utilisation of channel finance limits at about 47.8 percent over past 12 months ending september 2023.

Acuite believes that working capital operations of the firm will continue to remain efficient considering the nature of business.

## **Weaknesses**

### **Thin profitability margins inherent in auto dealership business**

The firm's operating margins remained thin at 3.03 percent in FY23 as against 3.99 percent in FY22 and 2.58 percent in FY21. Lower operating margins are attributable to inherent nature of auto dealership business and lower bargaining power of the dealer. Acuite believes that profitability margins will continue to remain thin going forward considering the nature of business.

### **Risk of capital withdrawal**

SC's constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-a-vis a limited company. Acuite believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital

structure.

### **Exposure to intense industry competition**

The passenger car industry in India is highly competitive. Being an authorized dealer for Tata Motors Ltd (TML), the firm has to compete with dealers of other car brands such as Maruti Suzuki, Hyundai, Mahindra & Mahindra etc. Auto manufacturers also encourage more dealerships (thereby increasing competition among dealers) to improve market penetration and sales. Thus, the business risk profile may continue to be constrained by limited bargaining power with principals, and exposure to intense competition.

### **Rating Sensitivities**

- Improved business risk profile supported by increase in scale of operations and margins.
- Further improvement in working capital requirement as marked by decline in inventory levels.

### **All Covenants**

Not Available

### **Liquidity Position: Adequate**

SC's has adequate liquidity position as reflected by firm's net cash accruals of Rs.24.77 Cr in FY23 which has improved from Rs.19.31 Cr in FY22 and Rs. 5.25 Cr in FY2021. Current ratio of the firm stood at 1.34 times and cash and bank balance stood at 6.11 Cr as on March 31st 2023. Firm's GCA days are around 56 to 73 days making it less dependent on short term borrowing for working capital requirements. Average bank utilization for channel finance facility stood at 47.8 percent over past 12 months ended september 2023.

### **Outlook: Stable**

Acuité believes that SC will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience, Strong product profile, and strong dealership network. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt funded capital expenditure.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	670.03	432.40
PAT	Rs. Cr.	24.00	18.70
PAT Margin	(%)	3.58	4.32
Total Debt/Tangible Net Worth	Times	1.57	0.99
PBDIT/Interest	Times	7.76	18.88

### 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitle: <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](http://www.acuite.in)

### Rating History :

Not Available

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB   Stable   Assigned
Bank of Baroda	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB   Stable   Assigned
ICICI Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB   Stable   Assigned
Indusind Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB   Stable   Assigned
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE BBB   Stable   Assigned
TATA Capital Financial Service Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB   Stable   Assigned
Tata Motors Finance Solutions Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB   Stable   Assigned

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### 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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