Model Fuels Private Limited

October 03, 2024

Ratings

Security/ Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	87.96	IVR BBB-/Stable (IVR Triple B minus with stable outlook)	IVR BBB-/Stable (IVR Triple B minus with stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	-	-	IVR A3 (IVR A Three)	Withdrawn^	Simple
Total	**87.96 (Rs. Eighty-Seven Crore and Ninety-Six Lakhs Only)**				

^No Dues Certificate issued by Karnataka Bank

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Model Fuels Private Limited (MFPL) continues to derive comfort from the long track record of promoters in automobile dealership industry and improvement in business performance in FY24(Prov.) [FY refers to the period from April 1 to March 31] & in Q1FY25. The ratings also continue to consider moderate capital structure of the company with improvement in debt protection metrics. However, these rating strengths continues to remain constrained due to working capital intensive nature of its operations, exposure to intense competition with revenue concentration and vulnerability to inherent cyclicality in automobile industry.

The stable outlook reflects expected stable business performance of the company driven by long standing experience of promotors and strong presence of MFPL in Bokaro, Dhanbad and Giridih district of Jharkhand with long relationship with Mahindra and Mahindra.

Infomerics Ratings has simultaneously withdrawn the rating assigned to the Demand Promissory Note (DPN) facility of MFPL with immediate effect. The above action has been taken based on No Dues Certificate (NDC) issued by Karnataka Bank. The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure with improvement in overall gearing ratio to below 1x
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Decline in operating income and/or profitability impacting the cash accrual
- Withdrawal of subordinated unsecured loans leading to moderation in overall gearing to over 3x
- Any substantial stretch in the operating cycle impacts liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of the promoters in the automobile dealership industry**
  The directors of MFPL have more than decade long experience in auto dealership business. Under Mr. Anish Dokania & his younger brother Mr. Ayush Dokania the company has expanded the setup to eighteen showrooms and five workshops across Bokaro, Dhanbad and Giridhi region. Most of these showrooms are in 3S format.
- **Improvement in business performance in FY24(Prov.) and in Q1FY25**
  The total operating income of the company witnessed a growth over the past fiscals from Rs. 214.02 crore in FY 2023 (A) to Rs. 280.87 crore in FY 2024 (Prov.) mainly driven by increase in revenue from sale of vehicles and workshop division. The total operating margin of the company remain comfortable and improved from 6.91% in FY23(A) to 7.38% in FY24 (Prov.) on account of increase in revenue from workshop and other service which generate relatively higher margin. Further, the PAT margin also improved from 1.42% in FY23(A) to 1.47 % in FY24 (Prov.) on account of rise in absolute EBITDA from Rs.14.79 crore in FY 23(A) to Rs. 20.74 crore in FY 24 (Prov.). MFPL has already achieved a turnover of Rs. 63.64 crore in Q1FY25.
- **Moderate capital structure with improvement in debt protection metrics**

The capital structure of the company remained leveraged over the past three fiscals. The total debt consists of Term loan, GECL Loan, Overdraft, and Cash Credit. The net worth base of the company stood moderate at Rs.25.07 crore as on March 31,2024 (prov.). However, the promoters have infused subordinate unsecured loans in the business as and when required to support the operations. Considering the said unsecured loans as quasi-equity aggregating to Rs.24.02 crore as a part of equity the adjusted tangible net worth (ATNW) stood satisfactory at Rs.49.09 crore as on March 31,2024. The long-term debt equity ratio remained satisfactory at 0.50x as on March 31, 2024 [0.55x as on March 31, 2023]. The overall gearing moderated from 1.46x as on March 31, 2023, to 1.95x as on March 31, 2024, mainly due to rise in short-term bank borrowing as on the account closing date. The debt protection metrics as indicated by interest coverage ratio has improved from 1.66x in FY23(A) to 1.74x in FY24(Prov.). Further, the Total debt to EBITDA and Total debt to GCA remain moderate though improved from 4.80x and 13.43 years respectively as on March 31, 2023, to 4.62x and 12.55 years respectively as on March 31, 2024 (Prov.).

Key Rating Weaknesses

- **Working capital intensive nature of operations**

  Inventory management is crucial for MFPL as it needs to maintain an optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. Instances of build-up of inventory normally take place during the year end in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 91 days in FY24 (Prov.) (~94days in FY23). Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up some time, the average collection period of the company remained around 30 to 50 days. On the other hand, the principals do not provide any credit period. Hence, working capital intensity of the business remained high. The operating cycle of the company has improved but continues to remain high at 119 days in FY24(Prov.) (against 138 days as on March 31, 2023) due to its high collection and inventory period.

- **Exposure to intense competition and revenue concentration**

  The company faces competition from dealers of other original equipment manufacturers (OEMs), along with dealers from the same principal resulting in increased pressure to pass on price discounts to customers. Further, the sales are regionally concentrated with its revenue derived from three district across Jharkhand.

- **Vulnerable to inherent cyclicality in automobile industry**
  The company remains vulnerable to cyclical downturns in automobile industry. Further, MFPL revenues like other auto dealers remains vulnerable to the regulatory changes (like tax amendments, upward migration to pollution standards) also to consumer sentiments mainly given the discretionary nature of the spend

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Policy on Withdrawal of Ratings
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate marked by adequate cash accrual of Rs. 10.15 crore – Rs. 14.08 crore vis-à-vis its debt repayment obligation of Rs. 0.63 crore – 7.00 crore during FY25-27. The overall gearing remained moderate at 1.95x as on March 31, 2024, (considering subordinated unsecured loans to the tune of Rs.24.02 crore as quasi equity) indicating a moderate gearing headroom. Further, the average working capital utilisation remained high at ~91% during the last twelve months ended July 2024 indicating low liquidity cushion. However, resourcefulness of the promoters is expected to support the liquidity of the company. The promoters have continuously supported the operations by infusing unsecured loans at regular intervals in the past.

About the Company

Jharkhand-based, Model Fuels Private Limited (MFPL) was incorporated on March 02, 1995, by Mr. Raghubir Prasad Dokania & Mr. Pushkarmal Dokania. The company started its automobile dealership business as an authorized dealer of commercial vehicles of Mahindra & Mahindra Ltd in 2009 in Dhanbad for both sales and service. In year of 2013, Model Fuels received its Full Range Dealership of (MAHINDRA Automotive Division) which includes both commercial vehicle (CV) & passenger vehicles (PV) and expanded its presence in NH2, Deoli, Govindpur, Dhanbad, and City Branch at Dhansar for Sales.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	214.02	280.87
EBITDA	14.79	20.74
PAT	3.05	4.13
Total Debt	71.01	95.76
Tangible Net Worth	20.94	25.07
EBITDA Margin (%)	6.91	7.38
PAT Margin (%)	1.42	1.47
Overall Gearing Ratio (x)	1.46	1.95
Interest Coverage (x)	1.66	1.74

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					July 25, 2023	-	-
1.	Term Loan	Long Term	12.96	IVR BBB-; Stable	IVR BBB-; Stable	-	-
2.	Cash Credit	Long Term	30.00	IVR BBB-; Stable	IVR BBB-; Stable	-	-
3.	Overdraft	Long Term	45.00	IVR BBB-; Stable	IVR BBB-; Stable	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	October 2030	12.96	IVR BBB-; Stable
Cash Credit	-	-	-	-	30.00	IVR BBB-; Stable
Overdraft	-	-	-	-	45.00	IVR BBB-; Stable

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Model-Fuels-03oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.