Press Release

FPL Automobiles Private Limited (FPL Hyundai)
February 16, 2021

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities -Term Loans	7.07	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Fund Based Bank Facilities - Inventory Funding/EDFS	50.50	IVR A4 (IVR Single A Four)	Assigned
Proposed Long Term Bank Facilities	2.43	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Total	**60.00**		

Details of Facilities are in Annexure 1

Detailed Rationale:

The aforesaid ratings assigned to the bank facilities of FPL Automobiles Private Limited (FPL Hyundai) derives strength from association with Hyundai Motor Company, improving trend of total operating income, established geographical presence and moderate financial risk profile. The rating however is constrained by working capital intensive operations, intense competition in the auto dealership industry and limited bargaining power with principal automobile manufacturers.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained increase in the scale of operations and profitability, leading to better net cash accrual and overall improvement of debt protection metrics.

Downward Factors

- Any decline in the scale of operation and profitability leading to deterioration of debt protection metrics.

Key Rating Drivers with detailed description.

Key Rating Strengths:

Association with Hyundai Motor Company:

The company has established its position in the industry as an authorised dealer of Hyundai Motor Company for the past five years, it has a long and established relationship with the principals Hyundai Motors, which is a well-established and a reputed brand in the automobile industry.

Improving trend of total operating income:

The total operating income of the company grew to Rs.268.73 Cr in FY20 from Rs. 263.87 Cr in FY19 on account of increased sale of car, after sales service and increased demand for Hyundai cars. FPL Hyundai reported car sales of Rs. 171.08Cr crore during 9M FY21. The majority of the revenue is generated from the sales of automobiles which accounted for around 80% of its total income in FY21 while the balance revenue was generated through services, sale of spare parts, oils and workshop income.

Established geographical presence with Five Operational showrooms & Four Service Centers:

FPL Hyundai has five showrooms operating in Chennai, Tamil Nadu. FPL sells more than eleven models of Hyundai cars. The models sold include New Verna, i20, Grand i10, Elantra, New Tucson, Venue, KONA Electric, Grand i10 NIOS, Aura, All New Creta and Santro. As of 9MFY 21, 1,953 cars were sold, and sale of Creta model was the highest among all the models followed by Venue, Grand i10 & i20. The showrooms have installed facilities like lifts, wheel alignment machines, Body shop, and mechanical maintenance and paint booths for servicing the cars. The company has four service centers which services around 45,000 - 50,000 in a year. Additional the company's yard has a storage capacity of 700+ Cars with an area of 93,000 Sq ft.

Moderate financial risk profile:

The financial risk profile of the company is moderate marked by moderate net worth, debt protection metrics and debt coverage indicators. The net worth of company stood at Rs.6.55 Cr as on 31 March, 2020 as against Rs.4.01 Cr as on 31 March, 2019. The total debt outstanding as on 31 March 2020 has decline to Rs.44.12 Cr compared to Rs.56.05 Cr previous year. The debt-equity stood at 1.73 times as on 31 March, 2020 as against 3.68 times as on 31 March, 2019. The overall gearing (debt-equity) stood at 6.74 times as on 31 March, 2020 as against 13.99 times as on 31 March, 2019. Total Debt / GCA ratio was at 8.99 times in FY2020 and Long term Debt to EBITDA stood at 1.07 times in FY2020 as against 1.93 times in FY2019. Further, TOL/TNW stood at 7.35 times as on 31 March 2020. The Interest Coverage Ratio improved to 2.00 times for FY2020 as against 1.57 times for FY2019.

Key Rating Weaknesses:

Working capital intensive operations:

The company purchases vehicles and spares directly from the manufacturing units of Hyundai Motor Company located in Chennai. The oils and other lubricants are purchased locally from Hyundai's recommended dealers. The purchase of vehicles, spares and oils is made against advance payment and hence the average creditor days stood low at 1-2 days. While in generally customer takes 16 days for making the payment on sale of vehicles and servicing. FPL has to keep a ready stock available in its showrooms and the ordered vehicles remain in the showroom until booked by customers, which depend on the market trends. This resulted in inventory period of 30 days in FY20.

Intense competition in the auto dealership industry:

Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like Ford, Maruti-Suzuki, Tata Motors etc. in the passenger vehicle segment. Entry of the global players in the Indian market has further intensified the competition. Due to very high competition in the industry, dealers are also forced to pass on discounts and other schemes to attract customer as this is a volume driven business. Hence, performance and prospects of the company is highly dependent on Hyundai being its principal.

Limited bargaining power with principal automobile manufacturers:

Owing to the inherent limitation in automobile dealership business firm is having limited bargaining power with principal automobile manufacturer viz. Hyundai Motor Company. FPL Hyundai's business model is largely in the nature of trading wherein profitability margins are very thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer. The margin on products is set at a particular level by the principal manufacturer thereby restricting the company to earn incremental income.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The Company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs.5.37 Cr to Rs.9.15 Cr during 2021-23 periods. The average Maximum Utilisation for the last 12 months ended Dec 2020 stood at 57.64%.

About the Company:

FPL Automobiles Private Limited (FPL HYUNDAI) is an authorized dealer of Hyundai Motor Company for vehicles and spare parts in the assigned territory of Greater Chennai. Started in 2015 with a single showroom and a service centre, company currently have 5 showroom and 4 service centers as of 2020, serviced more than 60,000+ customers. FPL HYUNDAI is currently managed by Mr. Venkateswaran Sekar, Mr. Narayanasamy Mohan, Mr. Vinay Mohan & Mr. Sai Krishna Sekar. Prior to establishing FPL HYUNDAI, the directors had previous experience in Electrical & Electronics, Heavy Equipment Industries, Pumps, Infrastructure, Home Appliances, Textiles, Engineering & plastic manufacturing. The company had received many awards & recognition from Hyundai Motor Company.

Financials: Standalone

(Rs. Crore)

For the year ended/ As On	31-03-2019	31-03-2020

	(Audited)	(Audited)
Total Operating Income	263.87	268.73
EBITDA	7.63	10.56
PAT	1.36	2.53
Total Debt	56.05	44.12
Tangible Net-worth	4.01	6.55
Ratios		
EBITDA Margin (%)	2.89	3.93
PAT Margin (%)	0.52	0.94
Overall Gearing Ratio (x)	13.99	6.74

Status of non-cooperation with previous CRA:

CARE Ratings vide their press release dated December 21st, 2020 has classified the case under Issuer Not Co-operating status on account of non-submission of relevant information.

Any other information: NA

Rating History for last three years:

		Current Ratings (Year 2020-21)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument/Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Long Term Fund Based Bank Facilities - Term Loans	Long Term	7.07	IVR BB/Stable	--	--	--
2.	Short Term Fund Based Bank Facilities - Inventory Funding/EDFS	Short Term	50.50	IVR A4	--	--	--

3.	Proposed Long Term Bank Facilities	Long Term	2.43	IVR BB/Stable	--	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities -Term Loans	--	--	Upto Mar 2027	7.07	IVR BB/Stable
Short Term Fund Based Bank Facilities - Inventory Funding/EDFS	--	--	--	50.50	IVR A4
Proposed Long Term Bank Facilities	--	--	--	2.43	IVR BB/Stable