# Competent Automobiles Company Limited

# Credit rating report

April 2024

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## Instruments and ratings

| | |
|---|---|
| **Total bank loan facilities rated** | Rs. 355.0 Crore (Enhanced from Rs.282 Crore) |
| **Long-term rating** | CRISIL A-/Stable (reaffirmed) |
| *Refer annexure for Details of Instruments & Bank Facilities* | |

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## Rating history

| Date | Long-term | Fixed deposit | Short-term | Rating watch/Outlook |
|---|---|---|---|---|
| Apr 4, 2024 | CRISIL A- | - | -- | Stable |
| Apr 24, 2023 | CRISIL A- | - | -- | Stable |
| May 4, 2022 | CRISIL A- | - | -- | Stable |
| Jun 3, 2021 | CRISIL BBB+ | - | CRISIL A2 | Positive |

## Analytical approach and adjustments

| Portfolio performance/networth/ gearing/parent or group support | Analytical treatment |
|---|---|
| NA | NA |

## Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable' rating on the long-term bank facilities of Competent Automobiles Company Ltd (CACL).

The rating continues to reflect the established market position of the company in the automobile (auto) dealership market in Delhi, Haryana and Himachal Pradesh; and its healthy financial risk profile. These strengths are partially offset by exposure to intense competition and concentration risk associated with a principal supplier, Maruti Suzuki India Ltd (MSIL; 'CRISIL AAA/Stable/CRISIL A1+').

## Rating drivers

| Supporting factors | Constraining factors |
|---|---|
| • Established market position.<br>• Healthy financial risk profile. | • Exposure to intense competition and concentration risk associated with principal supplier.<br>• Declining operating profitability. |

**Outlook: Stable**

CACL will continue to benefit from its established market position in the auto dealership business in Delhi, Haryana and Himachal Pradesh, and its healthy relationship with MSIL.

**Rating sensitivity factors**

**Upward scenario**

- Sustained improvement in operating income with a CAGR growth of 20-25% aided by volumetric growth along with sustained improvement in operating margins leading to higher than expected net cash accruals.
- Sustained efficient management of the working capital cycle leading to lower reliance on bank debt, further strengthening the financial risk profile.

**Downward scenario:**

- Decline in operating income by more than 10% or operating margin falling below 3% on consistent basis, leading to lower-than-expected net cash accrual.
- Any stretch in the working capital cycle or large, debt-funded capex weakening the financial risk profile.

## Company overview

The Company, Competent Automobiles Co. Ltd. (CACL) is a part of Delhi based Competent group, promoted by Sh. Raj Chopra. The company was incorporated on 11.04.1985 and is a listed public limited company on the Bombay Stock Exchange. The company is a profit making company since inception and engaged in Automobile business. Presently the company has its presence as a dealer of Maruti Suzuki India Ltd. in Delhi, Haryana and Himachal Pradesh. In Delhi the company has 5 showrooms and 3 workshops, in Haryana 2 showrooms and a workshop and in Himachal Pradesh 2 showrooms and 2 workshops.

## Key credit factors

# Business risk profile

**Established market position:** The business risk profile of CACL continues to be supported by its established market position, long-term relationships of more than three decade with MSIL (Rated 'CRISIL AAA/Stable/CRISIL A1+'). The company is currently operating 42 showrooms both in Arena and Nexa segment and 20 workshops in states of Delhi, Haryana, and Himachal, which has helped company witness ~10% of volumetric growth in 9M of FY24 as compared to similar period performance in previous fiscal. Company has achieved operating income of Rs 1618 crores during April-Dec in fiscal 2024, which is ~25% higher during corresponding period of previous fiscal. Growth in operating income in FY25 is expected to be ~15-20% largely supported by volumetric growth coming from launch of new showrooms in Noida and Kashmir region which are expected to be operational from H1 of FY25. Business risk profile shall continue to remain supportive of estabilished market position of the company.

**Exposure to intense competition and concentration risk associated with the principal supplier: T**he exclusive dealership for vehicles manufactured by MSIL makes CACL vulnerable to decline in revenue and profitability of the principal. Furthermore, non-exclusivity in the Delhi region exposes the company to competition from other MSIL dealers, in addition to dealers of other original equipment manufacturers (OEMs) in the auto sector. The risk of intense competition is expected to be mitigated with launch of new showrooms in Jammu and UP region, which shall help company further increase its scale of operations. Year to date operating income have been ~Rs 1600 crores till 9M of FY24 and is expected to be in range of Rs 2100-2200 crores in ongoing fiscal. The operating income in FY25 is expected to witness 15-20% of growth largely on account of increased volumetric sales from new showrooms. Sustained improvement in scale of operations amid stiff competition from OEMs of other brands further strengthening the overall market position of company would therefore remain a key rating sensitivity factor.

**Diversified presence in multiple states and presence across all segment cars**: The diversified presence of company in States of Delhi, Haryana and Himachal with diversification through presence of showrooms under 'Arena', 'Nexa' and 'Commercial', business insulates company from lower demand in any segment of MSIL business, and further helps in scaling of business operations.

### Operating efficiency

**Declining operating Profitability**: Although the operating profitability had remained stable in FY23 and in current fiscal, it has witnessed a decline to 3.2-3.5% in the afore said period from 4-4.5% in FY22 and FY21 largely on account of no extra sales incentives offered by MSIL in FY23 and in current fiscal and higher discounts offered during said period, with an aim to further strengthen the market share. Sustenance of operating margins in range of 3-3.5% amid sustained improvement in scale of operations would therefore remain a key rating sensitivity factor.

**Efficiently managed working capital cycle:** Operations of the company have been efficiently managed with GCA days ranging 50-70 days for last 4 years through FY23, largely driven by inventory holding days of ~30 days. The working capital requirements remain supportive of inventory funding limits. Going ahead, with no change in business model, GCA days are expected to be in range of 50-70 days over medium term.

# Financial risk profile

**Healthy financial risk profile:** Capital structure has been comfortable, as reflected in gearing of 0.9 time as on September 30, 2023. In the ongoing fiscal, with no major debt-funded capital expenditure (capex) and accretion of reserves, the capital structure is expected to remain comfortable with gearing estimated at 0.4-0.5 time as of

Mar 31, 2024, providing headroom to take additional debt for business requirement, if warranted. The debt protection metrics have also been healthy in the past and shall continue to remain so over the medium term as well, interest coverage and net cash accrual to adjusted debt (NCAAD) ratios are expected at 3-4 times and 0.2-0.3 times respectively, in fiscal 2024. With no debt-funded capex proposed to be undertaken over the medium term and operating margin expected to be range-bound at 3.2-3.5%, the overall financial risk profile will continue to remain healthy.

**Liquidity: Strong**

CACL is expected to generate net cash accrual of Rs 40-50 crore, which will be sufficient to meet up with business exigencies, as there exists NIL repayment obligations over medium term. Cash and cash equivalent have been ~Rs 9 crore as of September 2023, which is expected to be Rs 15-20 crore over the medium term. CACL also has access to fund-based working limits, which has been utilised at 61% on average during the 12 months through February 2024. CRISIL Ratings expects internal accrual, cash and cash equivalent, and unutilized bank lines to be sufficient to meet the debt obligation as well as incremental working capital requirement.

**Financial policy**

The financial policy is conservative, as indicated by low gearing of less than 1 time in the three fiscals ended September 30, 2023.

## Financial summary

| As on/ For the year ended March 31 | | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| (CRISIL-adjusted numbers) | - | Actual | Actual | Actual |
| Net Sales | Rs Crore | 1700 | 1223 | 1183 |
| Operating Income | Rs Crore | 1731 | 1245 | 1205 |
| OPBDIT | Rs Crore | 63 | 55 | 54 |
| PAT | Rs Crore | 25 | 19 | 17 |
| Net Cash Accruals | Rs Crore | 43 | 44 | 41 |
| Equity Share Capital | Rs Crore | 6 | 6 | 6 |
| Adjusted Networth | Rs Crore | 310 | 286 | 267 |
| Adjusted Debt | Rs Crore | 168 | 129 | 82 |
| OPBDIT Margins | % | 3.6 | 4.4 | 4.5 |
| Net Profit Margins | % | 1.4 | 1.6 | 1.4 |
| ROCE | % | 11.7 | 9.4 | 10.5 |
| PBDIT / Int. & Finance Charges | Times | 4.22 | 7.29 | 5.61 |
| Net Cash Accruals / Adjusted Debt | Times | 0.26 | 0.34 | 0.50 |
| Adjusted Debt / Adjusted Networth | Times | 0.54 | 0.45 | 0.31 |
| Adjusted Debt / PBDIT | Times | 2.38 | 2.15 | 1.35 |
| Current Ratio | Times | 1.26 | 1.70 | 2.09 |
| Cashflow from operations | Rs Crore | -12 | -5 | 150 |
| TOL/ ANW | Times | 0.80 | 0.76 | 0.69 |
| Operating Income/Gross Block | Times | 6.10 | 4.31 | 5.13 |
| Gross Current Assets days | Days | 52 | 74 | 57 |
| Debtor Days | Days | 10 | 17 | 14 |
| Inventory Days | Days | 24 | 21 | 16 |
| Creditor Days | Days | 1 | 2 | 2 |

*Above reflects analytical adjustments made by CRISIL Ratings.*

**Annexure: Bank-details of facility classes**

## 1. Inventory Funding Facility

| # | Bank | Amount (Rs.Cr.) | Rating |
|---|---|---|---|
| **a.** | HDFC Bank Limited | 250 | CRISIL A- / Stable |
| **b.** | Bank of Baroda | 65 | CRISIL A- / Stable |
| - | Total | 315 | - |

## 2. Cash credit

| # | Bank | Amount (Rs.Cr.) | Rating |
|---|---|---|---|
| **a.** | HDFC Bank Limited | 40 | CRISIL A- / Stable |
| - | Total | 40 | - |

**Links to related criteria**

CRISIL's approach to financial ratios.

Criteria for rating trading companies.

Rating Criteria for Retailing Industry

CRISIL's bank loan ratings - process, scale, and default recognition.

CRISILs Criteria for rating short term debt.

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