

Press Release

Auto Axis Private Limited

June 15, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.34.50 Cr. (Enhanced from Rs.29.00 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.34.50 crore bank facilities of AUTO AXIS PRIVATE LIMITED. The outlook is '**Stable**'.

About the company

Incorporated in 2006 Auto Axis Private Limited (AAPL) is an Assam-based company and is having a dealership of light, medium and heavy commercial vehicles of TATA Motors. The company also deals in spare parts, accessories and undertakes servicing of vehicles. AAPL currently has two 3S (Sales, Service and Spares) facilities and 5 retail sales. Company has set up another 3S facility in Golaghat which is expected to be operational from July, 2020

Analytical Approach

Acuité has considered standalone financial and business risk profile of Auto Axis Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established market position**

The promoters of the AAPL, Mr. Anil Kumar Himatsingka, Mr. Ravi Kumar Himatsingka, Mrs. Sadhana Himatsingka and Mrs. Jaya Himatsingka have been associated with the company since its inception which gives them an experience of more than a decade in the automobile retail industry. Further, having an operational track record of 14 years has enabled the company to maintain strong market position and relations with TATA Motors.

Acuité believes that the company will continue to derive benefit from its Promoters' experience and its market position.

- **Improved operating Income albeit low profitability**

The operating income of the company improved to Rs.233.42 crore in FY2019 as against 193.46 crore in FY2018. However operating income as per the YTD Data for the period April, 2019 to March, 2020 stood at Rs.215.73 crore. And going forward, due to COVID-19 it is expected that the operating income of the company will get severely impacted in FY2021. And this is likely to impact the financial risk profile of the company. Further, the operating margins of the company are low in the range of 2.5-3.0 percent.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is average marked by the average net-worth, high leverage levels and average interest coverage ratio. The net worth of the company stood at Rs.9.71 crore as on 31 March, 2019 as against Rs.8.52 crore as on 31 March, 2018. The gearing levels (debt-equity) stood high at 3.98 times as on 31 March, 2019 as against 4.26 times as on 31 March, 2018 and TOL/TNW (Total Outside Liabilities- Total Net Worth) stood at 6.77 times as on 31 March, 2019 as against 6.56 times as on 31 March, 2018. The total debt of Rs.38.60 crore as on 31 March, 2019 comprises of long term debt of Rs.4.54 crore and working capital loans of Rs.34.06 crore. The coverage indicator stood

average marked by interest coverage ratio (ICR) of 1.56 times in FY2019 as against 1.41 times in FY2018. Debt-EBITDA stood high at 5.61 times in FY2019 as against 6.50 times in FY2018.

Acuité believes that financial risk profile of the company is expected to remain average on account of high working capital requirements funded by debt and low profitability.

• **Working capital intensive nature of Operations**

Operations of AAPL are working capital intensive marked by Gross Current Assets (GCA) of 109 days in FY2019 as against 114 days in FY2018. This is majorly on the account of inventory holding period of 46 days in FY2019 as against 38 days in FY2018 and debtors' collection period 34 days in FY2019 as against 24 days in FY2018. Company enjoys credit period of around 30-40 days from its suppliers. Further, the current ratio of the company stands average at 1.13 times as on 31 March, 2019 as against 1.16 times as on 31 March, 2018.

Rating Sensitivities

- Deterioration in the profitability of the company.
- Deterioration in working capital cycle and liquidity profile of the company.

Material Covenants

None

Liquidity Position: Adequate

Company has adequate liquidity marked by average net cash accruals to its maturing debt obligations. AAPL generated net cash accruals of Rs.1.93 crore in FY2019 as against maturing debt obligations of Rs.1.31 crore for the same period. The net cash accruals are estimated to remain in the range of Rs.0.45 crore to Rs.1.70 crore for the period FY2020-FY2022 against maturing debt obligations of Rs.0.42 crore for the same period. The average fund based working capital utilization stood at ~30 percent for the last 4 months ended March, 2020. The company maintained unencumbered cash and bank balances of Rs.4.88 crore as on 31 March, 2019. The current ratio stands average at 1.13 times as on 31 March, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of average cash accruals and moderate working capital cycle.

Outlook: Stable

Acuité believes AAPL will maintain a 'Stable' outlook over the medium term. The company will continue to benefit from its experienced management and dealership agreement with TATA Motors. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues along with significant improvement in operating margins or improvement in capital structure of the company. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	233.42	193.46
PAT	Rs. Cr.	1.19	0.73
PAT Margin	(%)	0.51	0.37
Total Debt/Tangible Net Worth	Times	3.98	4.26
PBDIT/Interest	Times	1.56	1.41

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-Jan-2020	Loan Against Property	Long term	1.00	ACUITE BB- Issuer not co-operating*
	Inventory Funding	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Cash Credit	Long Term	6.00	ACUITE BB- Issuer not co-operating*
	Trade Advance	Short Term	1.50	ACUITE A4 Issuer not co-operating*
	Channel Financing	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Trade Advance	Short Term	12.50	ACUITE A4 Issuer not co-operating*
19-Nov-2018	Loan Against Property	Long term	1.00	ACUITE BB- Issuer not co-operating*
	Inventory Funding	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Cash Credit	Long Term	6.00	ACUITE BB- Issuer not co-operating*
	Trade Advance	Short Term	1.50	ACUITE A4 Issuer not co-operating*
	Channel Financing	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Trade Advance	Short Term	12.50	ACUITE A4 Issuer not co-operating*
13-Sep-2017	Loan Against Property	Long term	1.00	ACUITE BB- Issuer not co-operating*
	Inventory Funding	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Cash Credit	Long Term	6.00	ACUITE BB- Issuer not co-operating*
	Trade Advance	Short Term	1.50	ACUITE A4 Issuer not co-operating*
	Channel Financing	Short Term	4.00	ACUITE A4 Issuer not co-operating*
	Trade Advance	Short Term	12.50	ACUITE A4 Issuer not co-operating*

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/ Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	6.95	ACUITE A4 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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