

Press Release

Auto Axis Private Limited

September 09, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.34.50 crore bank facilities of Auto Axis Private Limited (AAPL). 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. The company is promoted by Mr. Anil Kumar Himatsingka, Mr. Ravi Kumar Himatsingka, Mrs. Sadhana Himatsingka and Mrs. Jaya Himatsingka. AAPL currently has three 3S (Sales, Service and Spares) facilities and 5 retail sales.

Analytical Approach

Acuité has considered the 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.283.87 crore in FY2021 (Prov.) as against Rs.216.97 crore in FY2020 and Rs.233.42 crore in FY2019. The company has shown good improvement in spite of Covid-19 pandemic due to good sales generated by the company. However, the profitability margins has been impacted with operating margins of the company which stood at around 2.12 percent in FY2021 (Prov.) as against 3.31 percent in FY2020 and 2.81 percent in FY2019, while PAT margins stood at around 0.24 percent in FY2021 (Prov.) as against 0.41 percent in FY2020 and 0.51 percent in FY2019.

- **Efficient working capital operations**

The working capital management of the group is efficient marked by Gross Current Asset (GCA) days of 65 days in FY2020 as against 109 days in FY2019. The improvement in GCA days are due to low inventory period of 9 days in FY2020 as against 46 days in FY2019. Receivables days stood at 30 days in FY2020 as against 34 days in FY2019. Also, the average bank limit utilization remained moderate at around 52 percent for the past trailing 6 months ended June 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company stood average marked by low net worth, high gearing and moderate debt protection metrics. The tangible net worth stood at Rs.10.61 crore as on March 31, 2020 as against Rs.9.71 crore as on March 31, 2019. The total debt of the company stood at Rs.33.03 crore includes Rs.5.74 crore of long term debt and Rs.27.29 crore of short term debt as on March 31, 2020. The gearing (debt-equity) stood at 3.11 times as on March 31, 2020 as compared to 3.98 times as on March 31, 2019. Interest Coverage Ratio stood at 1.38 times for FY2020 as against 1.56 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.22 times in FY2020 as against 1.11 times in FY2019. Total outside Liabilities/Total Net Worth (TOL/TNW) stood high at 3.88 times as on March 31, 2020 as against 6.77 times on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.05 times for FY2020 as against 0.05 times for FY2019.

Acuité believes that the financial risk profile of the company is expected to remain at the same level over the medium term.

- **Stiff competition from other dealers of Tata Motors Limited and other brands**

The company faces stiff competition from other dealers of Tata Motors Limited (TML) as there is an absence of absolute product differentiation. The company also faces competition from other automobile companies such as Mahindra & Mahindra Limited, Ashok Leyland Limited, Volvo Eicher Commercial Vehicles Limited to name a few.

Rating Sensitivities

- Significant improvement in the profitability margins.
- Any elongation of the working capital cycle leading to further deterioration in financial risk profile.

Material Covenants

None.

Liquidity Position: Stretched

The company has stretched liquidity marked by average net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.20-1.95 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.40-2.00 crore over the same period. The net cash accruals are estimated to remain in the range of Rs.1.40-3.35 crore for the period FY2020-FY2022 against maturing debt obligations of Rs.2.00-3.00 crore for the same period. The company's working capital operation is efficient marked by gross current asset (GCA) of 65 days in FY2020 as against 109 days in FY2019. The company maintains an unencumbered cash and bank balances of Rs.6.17 crore as on March 31, 2020. The current ratio of the company stood at 1.03 times as on March 31, 2020. The average bank limit utilization remained moderate at around 52 percent for the past trailing 6 months ended June 2021.

Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the near to medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while improving profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenue, profit margins or deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital or capex requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	216.97	233.42
PAT	Rs. Cr.	0.90	1.19
PAT Margin	(%)	0.41	0.51
Total Debt/Tangible Net Worth	Times	3.11	3.98
PBDIT/Interest	Times	1.38	1.56

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
15-Jun-2020	Inventory Funding	Long Term	4.00	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BB-/Stable (Reaffirmed)
	Channel Financing	Short Term	6.95	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	15.50	ACUITE BB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.05	ACUITE BB-/Stable (Reaffirmed)
28-Jan-2020	Term Loan	Long Term	1.00	ACUITE BB- (Indicative)
	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Working Capital Demand Loan	Short Term	1.50	ACUITE A4 (Indicative)
	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Working Capital Demand Loan	Short Term	12.50	ACUITE A4 (Indicative)
19-Nov-2018	Term Loan	Long Term	1.00	ACUITE BB- (Indicative)
	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Working Capital Demand Loan	Short Term	1.50	ACUITE A4 (Indicative)

	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Working Capital Demand Loan	Short Term	12.50	ACUITE A4 (Indicative)
13-Sept-2017	Term Loan	Long Term	1.00	ACUITE BB- (Indicative)
	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Working Capital Demand Loan	Short Term	1.50	ACUITE A4 (Indicative)
	Inventory Funding	Short Term	4.00	ACUITE A4 (Indicative)
	Working Capital Demand Loan	Short Term	12.50	ACUITE A4 (Indicative)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB-/Stable (Reaffirmed)
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB-/Stable (Reaffirmed)
IndusInd Bank	Trade Advance	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/Stable (Reaffirmed)
Tata Motors Finance Limited	Channel Financing	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4 (Reaffirmed)
Tata Capital Financial Services Limited	Trade Advance	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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