

Press Release

Oja Automobiles Private Limited

July 29, 2021

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs. 53.50 Cr.
Long Term Rating	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable; Assigned)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded and assigned the long term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.53.50 crore bank facilities of Oja Automobiles Private Limited (OAPL). The outlook is '**Stable**'.

The rating upgrade is driven by significant improvement in working capital management and liquidity position of the company during the period. The rating upgrade also takes into account the established market position for JCB in north east India and continuous improvement in financial risk profile by the company marked by improving network, gearing and debt protection metrics.

The rating continues to reflect the extensive experience of the management in automobile industry and established association with Hyundai Motors India Limited (HMIL) and JCB earth moving equipment. The rating also reflects by healthy scale of operation and established market position in Assam. However, these strengths are partially offset by the stiff competition from the other automobile dealers.

About the company

OAPL, incorporated in 2005, is a Guwahati (Assam) based authorised dealer of Hyundai Motor India Limited and JCB India Ltd. The company was promoted by Mr. Rajdeep Oja and Mr. Debaraj Oja. OAPL has five showrooms with 3S facility in Guwahati and Tezpur (Assam) for Hyundai Motor India Limited (HMIL). Additionally, the company has a sales outlet in Kamrup and a second hand vehicles showroom in Guwahati. Besides, the company also has two showrooms for JCB and 12 service stations spread across Assam. The company is also operates as C&F agent of Hyundai spare parts for entire North East India.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of OAPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and established market position in Assam

OAPL was established in the year 2005 by Mr. Rajdeep Oja and Mr. Debaraj Oja. The directors of the company have more than 15 years of experience in the automobile dealership business. The extensive experience of the management has helped the company establish long-term relations with the Hyundai Motors India Limited, JCB India Limited and OEM's.

The company is the sole dealer of JCB vehicles and has an established position in Assam (with two showrooms and 12 service stations spread across Assam). Additionally, the company is an authorized dealer of Hyundai Motors India Limited (HMIL). OAPL has 5 showrooms along with a sales outlet in Kamrup and a second hand vehicle showroom in Guwahati. The established market position is also reflected in the growth in JCB sales in FY2021 (Prov.). Moreover, the slight rise in the revenue is primarily on account of growth in JCB sales and spares and services, though the company have seen main growth in JCB sales due to the continuous thrust of state and central government on infrastructure development.

Healthy financial risk profile

The financial risk profile of the company is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood moderate at Rs.37.16 crore in FY 2021 (Prov.) as compared to Rs 30.04 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company has improved significantly and stood comfortable at 0.28 times as on March 31, 2021 (Prov.) when compared to 1.28 times as on March 31, 2020. This improvement in gearing is mainly on account of increase in networth and decrease in short term debt utilization during the period. Interest coverage ratio (ICR) is healthy and stood at 6.95 times in FY2021 (Prov.) as against 4.13 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood comfortable at 5.90 times in FY2021 (Prov.) as compared to 3.47 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.90 times in FY2021 (Prov.) as compared to 0.20 times in the previous year. The total outside liability against tangible networth (TOL/TNW) stood comfortable at 0.57 times in FY2021 (Prov.) as compared to 1.96 times in previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near term.

Healthy scale of operation coupled with moderate profitability margin

The revenue of the company stood healthy at Rs.470.38 crore during FY2021 (Prov.) as compared to Rs.465.60 crore in the previous year. Acuite believes, going forward the revenue of the company will sustain at the healthy level backed by increasing demand for passenger vehicle in domestic market along with continuous thrust of state and central government on infrastructure development which will further lead to increase the demand for JCB.

The operating profitability margin of the company stood moderate at 2.81 per cent in FY2021 (Prov.) and in FY20 respectively. Going forward, Acuite believes that the profitability margin of the company will remain at moderate level backed by trading nature of operation. The net profitability margin of the company has also moderate at 1.46 per cent in FY2021 (Prov.) as compared to 1.30 per cent in the previous year. Moreover, this improvement in net profitability margin is on account of decrease in interest cost backed by lower utilization of short term debt during FY'21 (Prov.).

Efficient working capital management

The working capital management of the company is marked by GCA days of 37 days in FY2021 (Prov.) as compared to 60 days in FY2020. The debtor days of the company stood comfortable at 08 days in FY2021 (Prov.) as compared to 05 days in the previous year. The inventory holding period of the company stood at 19 days in FY2021 (Prov.) as compared to 45 days in the previous year. Moreover, the company has utilized ~22 per cent of its working capital facility for the last six months ended June 2021. Acuite believes that the working capital of the company would be maintained at efficient levels over the medium term backed by the efficient debtor and inventory management policy of the promoters.

Weaknesses

Stiff competition from other dealers of HML and other brands

With HML focusing on expanding its dealership network, it results in increased competition within its own dealers. Furthermore, the industry competition is also with other automobile companies like Honda Cars Ltd, Tata Motors Ltd, Maruti Suzuki India Ltd, etc. Launching new models at competitive prices, results into eating the market share of HML which in turn also affects its dealers including OAPL.

Rating Sensitivity

- Sustenance in scale of operation and profitability margin
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.9.33 crore as against nil long term debt obligation during FY2021 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 9.98 crore to Rs. 10.90 crore during 2022-24 as against Rs.0.75 crore in FY2023 and Rs.2.87 crore in FY2024 of long term debt obligations. The current ratio of the company stood comfortable at 2.28 times in FY2021 (Prov.). The working capital management of the company is marked by comfortable Gross

Current Asset (GCA) days of 37 days in FY2021 (Prov.). The bank limit of the company has been ~22 per cent utilized during the last six months ended in June 2021. Moreover, the company has availed the covid emergency fund of Rs. 6.37 crore. The said loan has to be repaid over a period of 4 years including 1 year of moratorium. Moreover, the company has not availed the loan moratorium till August 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that OAPL will continue to benefit over the medium term from its experienced management and established association with HML and JCB. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	470.38	465.60
PAT	Rs. Cr.	6.88	6.05
PAT Margin	(%)	1.46	1.30
Total Debt/Tangible Net Worth	Times	0.28	1.28
PBDIT/Interest	Times	6.95	4.13

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

None

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
05-Mar-2020	Cash Credit	Long Term	22.50	ACUITE BBB/Stable (Upgraded)
	Cash Credit (e-DFS)	Long Term	17.00	ACUITE BBB/Stable (Upgraded)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB/Stable (Upgraded)
	Inventory Funding	Short Term	10.00	ACUITE A3+ (Upgraded)
	Inventory Funding	Long Term	1.00	ACUITE A3+ (Assigned)
17-Feb-2020	Cash Credit	Long Term	22.50	ACUITE BB+ (Downgraded & Indicative)
	Term Loan	Long Term	0.60	ACUITE BB+ (Downgraded)

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	Cash Credit (e-DFS)	Long Term	12.00	ACUITE BB+ (Downgraded &Indicative)
	Standby Line of Credit	Long Term	2.60	ACUITE BB+ (Downgraded &Indicative)
	Inventory Funding	Short Term	10.00	ACUITE A4+ (Downgraded &Indicative)
21-Nov-2018	Cash Credit	Long Term	22.50	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.60	ACUITE BBB- (Withdrawn)
	Cash Credit (e-DFS)	Long Term	12.00	ACUITE BBB-/Stable (Reaffirmed)
	Standby Line of Credit	Long Term	2.60	ACUITE BBB-/Stable (Reaffirmed)
	Inventory Funding	Short Term	10.00	ACUITE A3 (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB+/Stable (Upgraded)
Cash Credit (e-DFS)	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB+/Stable (Upgraded)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB+/Stable (Upgraded)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Upgraded)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Upgraded)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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