

MDH Trucks Private Limited:Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	8.00	SMERA B/Stable (Reaffirmed)
Proposed Cash Credit	1.00	SMERA B/Stable (Assigned)
Stand by Line of Credit	0.50	SMERA A4 (Assigned)
Term Loan	1.50	SMERA B/Stable (Withdrawal)

SMERA has reaffirmed the long term rating of '**SMERA B (read as SMERA B)**' and short term rating of '**SMERA A4 (read as SMERA A four)**' on the above mentioned bank facilities of MDH Trucks Private Limited (MDH Trucks). The outlook is '**Stable**'. Further, SMERA has withdrawn the long term rating of '**SMERA B (read as SMERA B)**' assigned on the Rs.1.50 crore term loan facilities since all dues have been paid off as certified by the banker.

The ratings derive comfort from the experienced management and healthy revenue growth rate. However, the ratings are constrained by the limited track record of operations, thin profit margins, weak financial risk profile and intense competition in the commercial vehicle distribution segment.

Established in 2011, MDH Trucks is a Hyderabad-based authorised dealer for Tata Motors commercial vehicles and is also engaged in the sale of spare parts and servicing.

The company is headed by Mr. Mohammed Naveed Shaik who possesses vast experience in the auto dealership business. The operating income grew at 14 per cent over the previous year owing to the increase in sales for commercial vehicles. As per FY2015-16 (Provisionals), the operating income stood at Rs.93.02 crore as against Rs.81.79 crore in FY2014-15.

Besides, the profits of the company are susceptible to the cyclicalities in the industry. The margins have shown an uneven trend. In FY2014, the EBITDA stood at 3.67 per cent which declined to 2.61 per cent in FY2015 and rose to 3.25 per cent in FY2016 (Provisionals). The PAT margin was 0.40 per cent in FY2014 which declined to 0.34 per cent in FY2015. Further, the ratings also factor in the intense competition in the automobile industry.

MDH Trucks' financial risk profile is below average marked by low net worth of Rs.3.09 crore as on March 31, 2016 (Provisionals). Further, the company has weak debt protection metrics with gearing at 5.28 times as on 31 March, 2016 (Provisionals) as compared to 4.41 times in FY2015. The ICR stands at 1.42 times in FY2016 (Provisionals).

Rating Sensitivity Factors

- Scaling up operations while improving profit margins
- Efficient working capital management

Outlook-Stable

SMERA believes that MDH Trucks will continue to maintain a stable outlook and benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially while maintaining its operating profitability and registering improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of

operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Criteria applied to arrive at the ratings:

- Trading Entities

About the Company

The Andhra Pradesh-based MDH Trucks, established in 2011 by Mr. Mohammed Naveed Shaik is an authorised dealer of commercial vehicles of Tata Motors Ltd. The company commenced commercial operations in 2012 to undertake servicing of vehicles and deals in spare parts at its two showrooms in Andhra Pradesh.

In FY2014-15, the company reported profit after tax (PAT) of Rs.0.28 crore on operating income of Rs.81.79 crore as against net profit after tax (PAT) of Rs.0.28 crore on operating income of Rs.70.34 crore in the previous year. As per FY2015-16 (Provisionals), the company reported net profit after tax (PAT) of Rs.0.64 crore on operating income of Rs.93.02 crore.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
24 July, 2015	Cash Credit	8.00	SMERA B (Assigned)	-	Stable
	Term Loan	1.50	SMERA B (Assigned)	-	Stable

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ABOUT SMERA

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