

Hoshiarpur Automobiles: Reaffirmed

Facilities	Amount (Rs Crore)	Rating/Outlook
Cash Credit	5.95	SMERA BB+/Stable (Reaffirmed)
Overdraft Against Immovable Property	5.00	SMERA BB+/Stable (Assigned)

SMERA has reaffirmed the rating of '**SMERA BB+**' (read as **SMERA double B plus**)' on the Rs.5.95 crore bank facility and also assigned a long term rating of '**SMERA BB+**' (read as **SMERA double B plus**)' on the Rs.5.00 crore bank facility of Hoshiarpur Automobiles (HA). The outlook is '**Stable**'.

The rating continues to derive comfort from the experienced management and established track record of operations. The rating also draws support from the established relations with Maruti Suzuki India Limited (MSIL) and moderate financial profile. However, the rating is constrained by the high leverage and competition from other auto dealers.

Update

HA is headed by Mr. Ajvinder Singh and Mr. Iqbal Singh who possess extensive experience in the automobile dealership business. The firm has established relations with MSIL for around three decades. It has taken dealership of NEXA, a premium dealership offering from MSIL and opened showrooms in Hoshiarpur and Mandi Gobindgarh. The moderate financial risk profile of the firm is evident in the interest coverage ratio of 2.12 times in FY2015-16 (provisional) as compared to 2.34 times a year earlier. The DSCR stood at 2.12 times in FY2015-16 (provisional) as against 2.34 times in the previous year indicating the firm's ability to repay its debt obligation going forward. The operating income registered an improvement to Rs.164.84 crore in FY2015-16 (Provisional) as compared to Rs.152.16 crore a year earlier. The operating margin is moderate at 3.32 per cent in FY2015-16 (Provisional) as compared to 3.44 per cent a year earlier.

However, the rating is constrained by the high TOL/TNW (total outside liability to total networth) at 3.58 times in FY2015-16 (Provisional) as compared to 3.05 times a year earlier. SMERA also notes that the current ratio of the firm stands low at 0.88 times in FY2015-16 (Provisional) as compared to 1.05 times a year earlier. SMERA also notes that the firm faces intense competition from dealers of other automobile companies such as Skoda, Toyota and Ford.

Outlook: Stable

SMERA believes HA will have a moderate outlook in the medium term owing to the long standing track of operation and extensive experience of the promoters in the business. The outlook may be revised to 'Positive' in case of increase in the scale of operations, improvement in profitability and coverage indicators and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of stretch in working capital management and further deterioration in the capital structure.

Rating Sensitivity Factors

- Scaling up operations while managing profitability margin
- Debt funded capex impacting the financial risk profile

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

Established in 1980, the Punjab-based HA headed by Mr. Ajvinder Singh and Mr. Iqbal Singh, is an authorised dealer of MSIL. The firm also undertakes sale of second hand cars through True Value Channel. The firm owns seven showrooms out of which two are on rental basis.

For FY2015-16 (Provisional) the firm reported profit after tax (PAT) of Rs.1.55 crore on operating income of Rs.164.84 crore as compared with PAT of Rs.1.86 crore on operating income of Rs.152.16 crore for FY2014-15. The firm's net worth stood at Rs.9.48 crore as on March 31, 2016 (Provisional) as compared with Rs.8.80 crore a year earlier.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
28 August, 2015	Cash Credit	5.95	SMERA BB+ (Assigned)	-	Stable

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ABOUT SMERA

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