

Press Release

Seemanchal Motors Private Limited (SMPL)

24 January, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.9.10 Cr
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Short Term Rating	SMERA A3 (Upgraded from SMERA A4+)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the rating on the Rs.9.10 crore bank facilities of Seemanchal Motors Private Limited (SMPL) to '**SMERA BBB-**' (read as **SMERA triple B minus**) and '**SMERA A3**' (read as **SMERA A three**) from 'SMERA BB+' (read as SMERA double B plus) and SMERA A4+ (read as SMERA A four plus) respectively. The outlook is '**Stable**'.

The rating upgrade is in view of the company's healthy revenue growth, comfortable financial risk profile and working capital management. The ratings continue to draw comfort from SMPL's association with Maruti Suzuki India Limited (MSIL). However, the ratings are constrained by the intense competition in the automobile dealership business and cyclicity associated with the automobile industry.

List of key rating drivers and their detailed description

Strengths:

Healthy revenue growth: Revenues have grown at a CAGR of 63 per cent from FY2013 to FY2016. Moreover, the company registered revenue of Rs.61.43 crore from April to September, 2016 on account of increasing demand in the industry.

Comfortable financial risk profile: The financial risk profile is comfortable with low gearing at around 0.75 times and networth at Rs.9.62 crore as on 31 March, 2016. The interest coverage ratio stands at around 5.56 times in FY2016. Further, the company plans to set up a showroom at Purnea, Bihar for sale of luxury cars of MSIL - Nexa. The project cost is around Rs.3.50 crore to be funded through a term loan of Rs.2.50 crore and promoter's contribution of Rs.1.00 crore. The showroom is expected to be ready by January, 2017. SMERA believes that the addition of debt is likely to have minimum impact on the gearing and coverage indicators of the company.

Moderate working capital requirement: The company has moderate working capital management with GCA of 55 days in FY2016 compared to 48 days in FY2015. This marginal increase is on account of increase in inventory of 32 days in FY2016 as against 25 in FY2015. Further, the average working capital limit utilisation stands at around 80 per cent from July to December, 2016.

Association with MSIL: The company has been the sole authorised dealer for MSIL since 2012 for Purnea, Bhagalpur, Katihar, Kishanganj and Araria districts of Bihar.

Weaknesses:

Intense competition in the automobile dealership business: The company faces intense competition from dealers of other automobile companies like Honda Motor Company Limited, Hyundai Motor India Limited, Tata Motors Limited to name a few.

Cyclical associated with the industry: The company is exposed to inherent cyclical associated with the automobile industry due to its correlation with the macroeconomic environment.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SMPL will continue to maintain a stable outlook and benefit over the medium term from its experienced management and association with MSIL. The outlook may be revised to 'Positive' in case the company registers substantial increase in scale of operations while maintaining comfortable operating profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure to achieve projected scalability in revenue or if the company registers deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity

SMPL was incorporated in April 2012, under the directorship of Mr. Arun Kumar Agrawal, Mr. Lalit Kumar Agrawal, Mrs. Jaya Agrawal and Mrs. Archana Agrawal. The company is the sole authorised dealer for MSIL in Purnea, Bhagalpur, Katihar, Kishanganj and Forbesganj districts of Bihar. The commercial operations commenced from October, 2012.

For FY2015-16, SMPL reported net profit of Rs.1.73 crore on operating income of Rs.102.95 crore, as compared to net profit of Rs.1.63 crore on operating income of Rs.94.85 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	0.60	SMERA BBB-/Stable (Upgraded)	-	-	07 Sep, 2015	SMERA BB+/Stable (Assigned)	-	-
e-DFS	ST	8.50	SMERA A3 (Upgraded)	-	-	07 Sep, 2015	SMERA A4+ (Assigned)	-	-

***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	NA	NA	NA	0.60	SMERA BBB-/Stable (Upgraded)
e-DFS	NA	NA	NA	8.50	SMERA A3 (Upgraded)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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