

Press Release

Mahalaxmi Automotives Private Limited

May 31, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 72.20 Cr. (Enhanced from Rs.62.20 crore)
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE C)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE C**' (read as **ACUITE C**) to the Rs. 38.50 crore bank facilities of MAHALAXMI AUTOMOTIVES PRIVATE LIMITED (MAPL). The outlook is '**Stable**'.

Acuité has assigned a long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.33.70 crore bank facilities of MAPL.

Pune-based, MAPL was incorporated in 1997 by Mr. Sadashiv Satav and his family. MAPL is an authorized dealer for Maruti Suzuki India Limited (MSIL) and Hero Moto Corp Limited (HML). MAPL has seven showrooms, nine workshops and four stockyards and also runs a driving school in Pune. In addition to this, MAPL has a bus transportation division and supplies 110 busses to Pune Mahanagar Parivahan Mahamandal Limited (PMPML).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Incorporated in 1997, MAPL has been associated with HML since inception. Backed by promoter's experience, the company became an authorized dealer for MSIL in 2008. MAPL is presently managed by Mr. Sadashiv Satav and family. Mr. Sadashiv Satav has been associated with the automobile dealership industry for two decades and is ably assisted by an experienced second line of management. Mr. Nitin Satav, qualified as diploma in automobile engineering, looks after the MSIL dealership division, while Mr. Sachin Satav, qualified as mechanical engineer, looks after HML dealership and transportation division. The management collectively has experience of more than a decade in this industry. MAPL enjoys sole dealership for MSIL in Baramati, Shirur, Patas, Mundhwa and Indapur for passenger cars (accounting for 70 % of turnover) and two-wheelers (accounting for 30 % of turnover).

Acuité believes that MAPL will benefit from the extensive experience of the promoters in the industry and established association with MSIL and HML.

- **Moderate working capital operations**

MAPL has moderate working operations marked by the Gross Current Assets (GCA) of 130 days in FY2018 as against 93 days in FY2017. The increase in GCA days is on account of increase in collection period of 84 days in FY2018 as against 69 days in FY2017. The rise in collection period is due to delays in payment from PMPML (bus division). Further, the collection period is expected to lower on account of end of contract with PMPML in September, 2019 which is expected to realize major portion of debtors. Inventory holding stood at 27 days in FY2018 as against 10 days in FY2017. The company is required to keep inventory of cars and two wheelers around 30 days. The average bank limit utilisation is fully utilized as on

February 2019.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

- **Moderate financial risk profile**

MAPL has moderate financial risk profile marked by moderate net worth, gearing and debt protection measures. The tangible net worth of the company stood moderate at Rs.35.16 crore as on March 31, 2018 against Rs.32.49 crore as on March 31, 2017. The gearing (debt-equity) remained moderate at 2.36 times as on March 31, 2018 against 3.07 times as on March 31, 2017. The total debt outstanding of Rs.83.20 crore as on 31 March 2018 consist of term loan of Rs.41.26 crore and working capital borrowing of Rs.41.76 crore. The coverage indicator of the company stood moderate levels. ICR stood at 1.96 times and DSCR stood at 0.84 times in FY2018. Total outside liabilities to tangible net worth has remained at 4.76 times as on 31 March, 2018. The Net cash accruals to Total debt (NCA/TD) stood at 0.14 times for FY2018. The Return on Capital Employed (RoCE) stood at 10.70 per cent in FY2018.

Acuité believed any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

- **Limited bargaining power with suppliers and exposure to intense competition**

Though MAPL is the sole dealer for MSIL in the districts it operates in, the company faces intense competition from dealers of other original equipment manufacturers (OEMs). Also, the principal suppliers face competition from other OEMs. Competition has been intensifying across segments, driven by the entry of new players. MAPL's business risk profile will be constrained over the medium term by limited bargaining power with suppliers and intense competition in the automotive dealership market.

Liquidity position:

MAPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.11.93 to Rs.19.08 crore during the last three years through 2016-18, while its maturing debt obligations were in the range of Rs.13.76–16.33 crore over the same period. The cash accruals of the company are estimated to remain around Rs.13.5–16.5 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 14.00 crore. The company's operations are moderate working capital as marked by gross current asset (GCA) days of 130 in FY2018. The cash credit limit in MAPL remains fully utilised as on February 2019. The company maintains unencumbered cash and bank balances of Rs.5.80 crore as on March 31, 2018. The current ratio of the company stood moderate at 0.92 times as on March 31, 2018. Acuité believes the company to maintain moderate liquidity over the medium term.

Outlook: Stable

Acuité believes that MAPL's outlook will remain 'Stable' and the company will benefit over the medium term from the experienced management and moderate working capital operations. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while maintaining profitability and working capital intensive operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	353.07	412.52	395.11
EBITDA	Rs. Cr.	22.55	24.19	26.80
PAT	Rs. Cr.	2.76	7.22	11.20
EBITDA Margin	(%)	6.39	5.86	6.78
PAT Margin	(%)	0.78	1.75	2.84
ROCE	(%)	10.70	15.51	38.86
Total Debt/Tangible Net Worth	Times	2.36	3.07	3.55
PBDIT/Interest	Times	1.96	2.27	2.63
Total Debt/PBDIT	Times	3.73	3.66	2.98

Gross Current Assets (Days)	Days	130	93	71
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Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Oct-2018	Cash Credit	Long Term	3.50	ACUITE C (Indicative)
	Cash Credit	Long Term	2.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	13.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	4.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	23.00	ACUITE C (Indicative)
	Term Loans	Long Term	7.00	ACUITE C (Indicative)
	Term Loans	Long Term	9.70	ACUITE C (Indicative)
01-Mar-2017	Cash Credit	Long Term	3.50	ACUITE C (Indicative)
	Cash Credit	Long Term	2.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	13.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	4.00	ACUITE C (Indicative)
	Channel/Dealer/Vendor Financing	Long Term	23.00	ACUITE C (Indicative)
	Term Loans	Long Term	7.00	ACUITE C (Indicative)
	Term Loans	Long Term	9.70	ACUITE C (Indicative)
03-Dec-2015	Cash Credit	Long Term	5.50	ACUITE C (Assigned)
	Inventory Funding	Long Term	17.00	ACUITE C (Assigned)
	Electronic Dealer Finance (EDF)	Long Term	23.00	ACUITE C (Assigned)
	Term Loans	Long Term	16.70	ACUITE C

				(Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+/Stable (Upgraded from ACUITE C)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+/Stable (Upgraded from ACUITE C)
Channel/Dealer/Vend or Financing	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/Stable (Upgraded from ACUITE C)
Channel/Dealer/Vend or Financing	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE B+/Stable (Upgraded from ACUITE C)
Channel/Dealer/Vend or Financing	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE B+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+/Stable (Upgraded from ACUITE C)
Electronic Dealer Finance (EDF)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+/Stable (Upgraded from ACUITE C)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Assigned)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	7.70	ACUITE B+/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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