

Press Release

Aadhi Cars Private Limited

02 May, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.35.00 crore bank facilities of Aadhi Cars Private Limited (ACPL). The outlook is '**Stable**'.

Aadhi Cars Private Limited (ACPL) based at Coimbatore is an authorised dealer of Maruti Suzuki India Limited (MSIL). The company was incorporated in 2012 by Mr. S. Srinivasan and Ms. K. Kalaivani. ACPL is engaged in the sale of new cars, pre-owned cars (under True Value outlet), spare parts and accessories and undertakes servicing of vehicles. Additionally, the company also runs Maruti Driving School (MDS).

ACPL commenced operations by opening its first 3S showroom (sales-service-spares) at Coimbatore in August, 2012. As on date, ACPL has 4 3S (Coimbatore and Tirunelveli), 3 True Value outlets, 16 retail sales outlets, 3 service stations, 3 Maruti Driving Schools, 2 Stockyard and 1 parking yard.

Key Rating Drivers

Strengths

Healthy Revenue Growth

ACPL has booked revenue of Rs.375.13 crore in FY2017 as compared to Rs.276.24 crore in FY2016 which has increased by 35.80 percent from the previous year. The company revenue is growing at 55.50 percent CAGR (Compounded Annual Growth Rate) since 2013. The company has booked revenue of Rs.416.69 crore in FY2018 (Provisional).

Moderate working capital cycle

The working capital cycle of ACPL stood moderate on account of GCA (Gross Current Asset) days of 75 in FY2017 and 68 in FY2016. Further, the company has moderate inventory holding days of 37 and low receivable days of 8 in FY2017.

Weaknesses

Thin operating margins

ACPL operates on thin operating margins of 1.80 percent in FY2017 which has declined from 1.92 percent in FY2016 on account of its trading nature of business.

High gearing and moderate coverage ratio

The debt equity ratio stood high at 7.94 times in FY2017 which has increased from 5.73 times in FY2016 on account of increase in debt funded capex. The Interest Coverage Ratio (ICR) has also declined to 1.27 times in FY2017 as compared to 1.30 times in FY2016. The Total Outside Liabilities/Tangible Net Worth stood high at 13 times in FY2017 which has increased from 8.38 times

in FY2016. The DSCR stood low at 0.88 times in FY2017 which has declined from 0.90 times in FY2016.

Stiff competition

MSIL's focus on expanding its dealership network has resulted in increased competition among its own dealer network. Furthermore, the company also faces competition from dealers of other automobile companies like Honda, Tata Motors and Ford to name a few.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Aadhi Cars Private Limited while arriving at the rating.

Outlook: Stable

SMERA believes that ACPL will maintain a 'Stable' outlook owing to the extensive experience of its promoters and relationship with MSIL. The outlook may be revised to 'Positive' in case of improvement in the capital structure is significantly better than expected while maintaining steady revenue growth and improvement in margins. Conversely, the outlook may be revised to 'Negative' if ACPL posts significant decline in revenues and profitability, or takes on larger than expected debt to fund its working capital requirements, leading to further deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	375.13	276.24	118.93
EBITDA	Rs. Cr.	6.76	5.30	2.48
PAT	Rs. Cr.	-0.17	-0.05	-0.62
EBITDA Margin	(%)	1.80	1.92	2.09
PAT Margin	(%)	-0.04	-0.02	-0.53
ROCE	(%)	10.13	11.95	8.50
Total Debt/Tangible Net Worth	Times	7.94	5.73	4.18
PBDIT/Interest	Times	1.27	1.30	1.11
Total Debt/PBDIT	Times	7.66	6.61	10.76
Gross Current Assets (Days)	Days	75	68	119

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

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Mar-2017	Channel Financing	Short Term	28.00	SMERA A4 (Reaffirmed)
	Term Loan	Long Term	5.00	SMERA B+ / Stable (Reaffirmed)
	Dropline Overdraft (e-Dfs)	Long Term	2.00	SMERA B+ / Stable (Assigned)
29-Dec-2015	Dropline Overdraft	Long Term	5.00	SMERA B+ / Stable (Assigned)
	Cash Credit	Short Term	15.00	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
Channel Financing	Not Applicable	Not Applicable	Not Applicable	28.00	SMERA A4 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable (Reaffirmed)
Dropline Overdraft (e-Dfs)	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B+ / Stable (Reaffirmed)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Rupesh Patel Analyst - Rating Operations Tel: 022-67141320 rupesh.patel@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy,

accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.