

Arasu Autos (AA): Assigned

Name of the Instrument	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	7.00	SMERA B+/Stable (Assigned)
Bank Guarantee	0.75	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA B plus**) and '**SMERA A4**' (read as **SMERA A four**) to the Rs. 7.75 crore bank facilities of Arasu Autos (Thanjavur). The outlook is '**Stable**'.

The ratings draw comfort from the firm's established track record of operations, experienced management and improvement in margins. However, the ratings are constrained by the uneven revenue trend and stiff competition from other dealers in two-wheelers.

AA, established in 1991, the firm is the sole dealer for Bajaj Auto Limited in the Thanjavur district. The operations of the company are managed by Mr. T. Murugan, Managing Partner who has more than 25 years of experience in this line of business. The operating margin of the AA has improved from 4.32 per cent in FY 2013-14 to 5.29 per cent in FY 2014-15.

The operating revenue of AA has reflected an uneven trend during the period under study. Revenues have fallen from Rs.38.19 crores in FY2013-14 to Rs.34.42 crores in FY 2014-15. Further, as per provisional FY2015-16, the firm has registered net sales of Rs.27.97 crore.

AA faces intense competition from dealers of other two wheeler companies such TVS and Honda. The firm's operations are susceptible to the inherent cyclicalities in the automobile sector.

Rating Sensitivity Factors

- Increasing scale of operations
- Maintaining operating profit margins
- Working capital management and bank limit utilization

Outlook-Stable

SMERA believes AA will maintain its stable business risk profile in the medium term owing to the extensive business experience of promoters and relationship with Bajaj Auto Limited (BAL). The outlook may be revised to 'Positive' if improvement in its capital structure and margin is significantly better than expected while maintaining a steady revenue growth. Conversely, the outlook may be revised to 'Negative' if the firm records 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.

Criteria applied to arrive at the ratings:

- Trading Entity

About the Firm

Arasu Autos, established in 1991, is a dealer for two wheelers of Bajaj Auto for Thanjavur, Tamil Nadu and sells the same under the 'Arasu Bajaj' brand name. The operations are managed by Mr. T Murugan, Managing Partner who possesses over 25 years of experience in this line of business.

For FY2014–15, AA reported profit after tax (PAT) of Rs.0.50 crore on operating income of Rs.34.42 crore, as compared with PAT of Rs.0.62 crore on operating income of Rs.38.19 crore in FY2013–14.

Contacts:

Analytical	Media
Mr. Mohit Jain Vice President – Ratings Operation, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India.

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.