

Press Release

Arasu Autos Thanjavur

September 18, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 7.75 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. 7.75 crore bank facilities of Arasu Autos - Thanjavur. The outlook is '**Stable**'.

Arasu Autos - Thanjavur, established in 1991, deals in two wheelers of Bajaj Auto and sell the same under the Arasu Bajaj brand name. The firm is located at Thanjavur.

Key Rating Drivers

Strengths

- **Experienced management**

The operations are led by Mr. T. M. Aswinprabu (son of Mr. T. Murugan) and Mr. R. Thirunavukkarasu, the managing partner who has over two decades of experience in this line of business.

- **Established relationship with Bajaj Auto Limited**

The firm has been dealing in two wheelers of Bajaj Auto Limited since inception. The firm is the sole dealer for Bajaj Auto Limited in the Thanjavur district. The management has another Bajaj Auto dealership in Thiruvavur.

- **Above average financial risk profile**

The financial risk profile of Arasu Autos - Thanjavur is above average marked by gearing of 0.59 times as on 31 March, 2016 as against 0.53 times as on 31 March, 2015. For FY2016-17 (Provisional), the gearing stood at 0.54 times. The total debt majorly includes working capital facilities with no debt funded capex plan. The networth stands at Rs.11.72 crore as on 31 March, 2016, after considering Rs.7.47 crore of unsecured loans as quasi equity. For FY2016-17 (Provisional), the networth stood at Rs.11.78 crore. Unsecured loans are interest free and long term in nature. The Interest coverage ratio (ICR) stood low at 1.44 times for FY2015-16 as against 1.38 times for FY2014-15. The ICR stood at 1.61 times for FY2016-17 (Provisional).

Weaknesses

- **Declining trend in sales with uneven profitability margins**

The operating revenue has fallen from Rs.34.42 crore in FY2014-15 to Rs.32.00 crore in FY2015-16. Further, as per provisional figures for FY2016-17, the firm registered net sales of Rs. 28.53 crore. The uneven operating margins stood at 4.78 percent in FY2015-16 as against 5.29 percent in FY2014-15 and 4.83 percent in FY2016-17 (Provisional).

- **Working capital intensive operations**

The working capital cycle stood at 117 days with Gross Current Asset (GCA) of 125 during FY2015-16. For FY2016-17 (Provisional), the working capital cycle stood at 105 days with GCA days of 115.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the entity.

Outlook: Stable

SMERA believes that Arasu Autos - Thanjavur will maintain a stable outlook owing to its experienced management and established relations with Bajaj Auto Limited. The outlook may be revised to 'Positive' if the improvement in its capital structure is significantly better than expected while maintaining a steady revenue growth and margin improvement. The outlook may be revised to 'Negative' in case the firm registers significant decline in revenues and profitability, or 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

For FY2016-17 (Provisional), Arasu Autos - Thanjavur reported Profit after Tax (PAT) of Rs.0.59 crore on operating income of Rs.32.33 crore as compared to PAT of Rs.0.46 crore on operating income of Rs.32.00 crore in FY2015-16. The net worth stood at Rs.11.78 crore as on 31 March, 2017 (Provisional) against Rs.11.72 crore a year earlier.

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. Cr.)	Ratings/Outlook
21-Jun-2016	Cash Credit	Long Term	INR 7	SMERA B+ / Stable
	Bank Guarantee	Short Term	INR 0.75	SMERA A4

*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	7.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A4

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ABOUT SMERA

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