Press Release

Arasu Autos - Thanjavur

November 15, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.75 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed 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. 7.75 crore bank facilities of Arasu Autos - Thanjavur (AAT). The outlook is **'Stable'**.

AAT, established in 1991, is a dealer for two wheelers of Bajaj Auto at Thanjavur (Tamil Nadu) and sells the same under the 'Arasu Bajaj' brand name. The operations are managed by Mr. R. Thirunavukkarasu (Managing Partner) who has over two decades of experience in this line of business.

Analytical Approach

Acuité has considered standalone business and financial risk profile of AAT to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with Bajaj Auto Limited**
  The operations of AAT are currently managed by Mr. R. Thirunavukkarasu who has over two decades of experience in this line of business. AAT deals in two wheelers of Bajaj Auto Limited since its inception in 1990 and is the sole dealer for Bajaj Auto Limited in the Thanjavur district under the brand name 'Arasu Bajaj'. The management has another Bajaj Auto dealership in Thiruvarur which is also the sole dealer for Bajaj Auto in that district, thus, having established relationship with Bajaj Auto Limited.

- **Moderate financial risk profile**
  The financial risk profile of AAT is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of AAT is moderate at around Rs.12.85 crore as on 31 March, 2018 (Provisional) as against Rs.12.99 crore as on 31 March, 2017. The net worth is inclusive of Rs.8.35 crore of unsecured loan by the promoter to support the incremental working capital requirements. AAT has followed a conservative financial policy as reflected by peak gearing of 0.59 times over the last three years through 2016-18. The gearing of AAT has remained healthy at 0.58 times as on March 31, 2018 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.68 times as on 31 March, 2018 (Provisional) as against 0.63 times as on 31 March, 2017. Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) have remained average at 1.41 times in FY2018 (Provisional) and 1.56 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31 March, 2018 (Provisional) as against 0.10 times as on 31 March, 2017. Acuité believes that the financial risk profile of AAT will continue to remain moderate over the medium term on account of its conservative financial policy.

Weaknesses

- **Declining trend in operating income with uneven profitability margins**
  AAT has recorded a declining trend in operating income during the period under study. Operating income has fallen to Rs.27.91 crore in FY2018 (Provisional) from Rs.31.50 crore in FY2017. As per the management discussion, the decline in sales during FY2015-16 was due to the floods that struck South India in November 2015. For FY2016-17, the sales got affected due to demonetisation during November and December 2016 and decline in demand for two wheelers during that period as the region (Cauvery delta) in and around Thanjavur and Thiruvarur was affected by drought.

Outlook: Stable

Acuité believes AAT will maintain a 'Stable' outlook owing to the extensive business experience of promoter and long relationship with Bajaj Auto Limited. The outlook may be revised to 'Positive' if AAT records improvement in revenue while maintaining its financial risk profile and steady margins. The outlook may be revised to 'Negative' in case AAT records significant decline in revenues and profitability, or in case of larger than expected debt to fund its working capital requirements, leading to further deterioration in its working capital management.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	27.91	31.50	31.97
EBITDA	Rs. Cr.	1.46	1.68	1.50
PAT	Rs. Cr.	0.43	0.61	0.46
EBITDA Margin	(%)	5.25	5.32	4.70
PAT Margin	(%)	1.53	1.93	1.45
ROCE	(%)	7.45	8.91	10.05
Total Debt/Tangible Net Worth	Times	0.58	0.49	0.59
PBDIT/Interest	Times	1.41	1.56	1.44
Total Debt/PBDIT	Times	5.06	3.77	4.49
Gross Current Assets (Days)	Days	141	127	124

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities -https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.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
18-Sep-2017	Cash Credit	Long Term	7.00	ACUITE B+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A4 (Reaffirmed)
21-Jun-2016	Cash Credit	Long Term	7.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A4 (Assigned)

***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	ACUITE B+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:
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