

Arasu Autos Thiruvarur: Assigned

Name of the Instrument	Amount (Rs Crore)	Ratings/Outlook
Cash credit	5.00	SMERA B/Stable (Assigned)
Overdraft	5.00	SMERA B/Stable (Assigned)
Bank Guarantee	0.75	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B**' (read as **SMERA B**) and '**SMERA A4**' (read as **SMERA A four**) to the above mentioned bank facilities of Arasu Autos Thiruvarur. The outlook is '**Stable**'.

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

Arasu Auto (Thiruvarur), established in 2011, is the sole dealer for Bajaj Auto Limited (BAL) in Thiruvarur district, Tamil Nadu.

The financial risk profile is below average marked by interest coverage of 1.60 times in FY2015. However, the margins of the firm have shown improvement during the period under study from 3.35 per cent in FY2014 to 5.79 per cent in FY2015. The PAT margins stood at 2.16 per cent in FY2015 as compared to 1.32 per cent in FY2014.

The firm shows declining revenue trend of Rs.30.91 crore for FY2014-15, a decline of ~22 per cent over the previous year. Further, in FY2016, the firm registered net sales of Rs.25.10 crore (Provisional) from April 2015 to March 2016. The bank limit utilisation has been high at ~95 per cent for six months ended May 2016. The firm is subject to the inherent cyclicity of the industry since it caters to the automobile sector.

Rating Sensitivity Factors

- Increasing scale of operations
- Maintaining operating profit margins
- Efficient working capital management and bank limit utilisation

Outlook-Stable

SMERA believes Arasu Auto (Thiruvarur) will maintain a stable business risk profile backed by extensive business experience of promoters and its relationship with BAL. The outlook may be revised to 'Positive' if improvement in its capital structure is significantly better than expected while maintaining steady revenue growth and improvement in margin. Conversely, the outlook may be revised to 'Negative' in case the firm records significant decline in revenues and profitability or undertakes larger than expected debt to fund its working capital requirements.

Criteria applied to arrive at the ratings:

- Trading Entity

About the Firm

Arasu Auto (Thiruvapur) was established in 2011. The firm is the sole dealer of Bajaj Auto in Thiruvapur and sells two wheelers under the Arasu Bajaj brand name.

The operations of the firm are managed by Mr. T Murugan, Managing Partner who has more than 25 years of experience in the industry. The firm has ~20 facilities for two wheelers across Thiruvapur.

In FY2014-15, Arasu Auto (Thiruvapur) reported profit after tax (PAT) of Rs.0.67 crore on operating income of Rs.30.91 crore, as compared with net profit of Rs.0.53 crore on operating income of Rs.39.92 crore in the previous year.

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ABOUT SMERA

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