

Press Release

Arasu Autos Thiruvavarur

August 23, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 10.75 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**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 10.75 crore bank facilities of Arasu Autos - Thiruvavarur. The outlook is '**Stable**'.

Arasu Autos - Thiruvavarur, established in 2011 is the sole dealer of two wheelers of Bajaj Auto in Thiruvavarur, Tamil Nadu. The firm sells two wheelers under the Arasu Bajaj brand name.

Key Rating Drivers

Strengths

- Experienced management**

The operations of the firm are led by Mr. R. Thirunavukkarasu, the Managing Partner who possesses over two decades of experience in the business. Mr. T. M. Aswinprabu, the new partner is in place of his father, the Late Mr. T. Murugan.

- Established relationship with Bajaj Auto Limited**

Arasu Autos Thiruvavarur has been dealing in two wheelers of Bajaj Auto Limited since 2011 and has long term relations with Bajaj Auto Limited.

Weaknesses

- Declining trend in sales with uneven profitability margins**

The operating revenue fell from Rs.30.91 crore in FY2014-15 to Rs.28.67 crore in FY2015-16. For FY2016-17, the firm registered net sales of Rs. 24.99 crore (Provisional). The PAT margin has been uneven at 1.72 percent in FY2015-16 as against 2.16 percent in FY2014-15 and 2.31 percent for FY2016-17 (Provisional). However, the operating margin has shown an increasing trend from 5.79 percent in FY2014-15 to 6.83 percent in FY2015-16. For FY2016-17 (Provisional), the same stood at 6.88 percent.

- Below average financial risk profile**

The financial risk profile is below average marked by gearing of 5.38 times as on 31 March, 2016 as against 5.60 times as on 31 March, 2015. For FY2016-17 (Provisional), the same stood at 5.26 times. The total debt majorly includes working capital facilities with absence of debt funded capex plan. The networth stands low at Rs.1.82 crore as on 31 March, 2016 as against Rs.1.69 crore as on 31 March, 2015. For FY2016-17 (Provisional), the firm registered networth of Rs.1.90 crore. Further, the firm has loans and advances of Rs.2.39 crore extended to group entities as on 31 March, 2016 as against Rs.8.14 crore as on 31 March, 2015. The Interest coverage ratio (ICR) stands low at 1.51 times for FY2016-17 (Provisional) as against 1.34 times for FY2015-16.

• Working capital intensive operations

The working capital cycle stands high at 99 days with Gross Current Asset (GCA) days of 113 during FY2015-16. For FY2016-17 (Provisional), the working capital cycle stood at 80 days with GCA days of 91.

Analytical Approach

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

Outlook: Stable

SMERA believes that Arasu Autos-Thiruvavur will maintain a stable outlook over the medium term backed by its experienced management and established relations with Bajaj Auto Limited. The outlook may be revised to 'Positive' if the improvement in capital structure is significantly better than expected while maintaining a steady revenue growth and improvement in margin. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability, or if the firm undertakes larger than expected debt to fund working capital requirements, leading to further deterioration in its financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), Arasu Autos - Thiruvavur reported Profit after Tax (PAT) of Rs.0.66 crore on operating income of Rs.28.37 crore compared to PAT of Rs.0.49 crore on operating income of Rs.28.67 crore in FY2015-16. The net worth stood at Rs.1.90 crore as on 31 March, 2017 (Provisional) against Rs.1.82 crore a year earlier.

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

None

Any other information

None

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 5	SMERA B / Stable
	Overdraft	Long Term	INR 5	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	Not	Not	5.00	SMERA B / Stable

	Applicable	Applicable	Applicable		
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A4

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Shalini Sekar Analyst - Rating Operations Tel: 022-67141146 shalini.sekar@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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