

Press Release

Enar Industrial Enterprises Limited

17 May, 2018



Rating Re-affirmed

Total Bank Facilities Rated*	Rs. 39.75 Cr.
Long Term Rating	SMERA BB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has re-affirmed long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs. 39.75 crore bank facilities of Enar Industrial Enterprises Limited (EIEL). The outlook is '**Stable**'.

Incorporated in 1978, Enar Industrial Enterprises Limited (EIEL) is an authorized dealer for heavy commercial vehicles of TATA Motors Limited (TML) in Jharkhand. The company currently has 7 showrooms spread across Jharkhand with two showrooms having 3S facility (3S stands for Sales, Service, and Spares) and four showrooms having 2S facility and another showroom with 1S facility. EIEL is promoted by Mr. Rajen Kamani and his family members.

Key Rating Drivers

Strengths

Experienced management and long track record of operation

The company has a long track record of four decades in the auto dealership industry. The company was promoted by the Ranchi based Kamani family led by Mr. Rajen Kamani.

Long standing relationship with TML

The company has an established relationship with TML since last four decades and is currently the largest dealer of TML for heavy commercial vehicles in the state of Jharkhand. The established relationship is further demonstrated from the diversified geographical presence in the state of Jharkhand with showrooms located in Bokaro, Hazaribagh, Pichhari, Ranchi, Koderma, Dhanbad and Ramgarh.

Weaknesses

Thin profit margins

EIEL's operating margins stood at 2.22 per cent in FY 17 as compared to 2.27 per cent in the previous year. The net profit margin is low and stood at 0.09 per cent in FY2017 as compared to 0.08 per cent in the previous year. Thin profitability is due to the dealership nature of operations with over 95 per cent of the revenue derived from the sale of low margin heavy commercial vehicles.

Working capital Intensive Operations

The operation of EIEL is working capital intensive in nature on account of maintenance of commercial vehicles inventory in advance payments terms. The company generally maintains inventory of 60 days on an average. The working capital intensity is also marked by Gross Current Assets (GCA) days of 88 days as on 31st March'17 as compared to 101 days in the previous year. The company generally utilizes ~ 75 per cent of its working capital limits.

Moderate financial risk profile

The moderate financial risk profile of EIEL is marked by modest net worth, weak debt protection metrics and high gearing. The net worth stood at Rs 11.26 crs as on 31st March'17 as compare to Rs 11.06 crs in the

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previous year. The debt protection metrics is marked by the modest interest coverage ratio of 1.12 times in FY 2017 as compared to 1.13 times in the previous year. Capital structure of EIEL is highly leveraged marked by high gearing of 3.93 times as on March 31, 2017 as compare to 3.72 times in the previous year. The TOL to TNW stands at 4.69 times in FY 2017 as compare to 4.85 times in the previous year.

Outlook: Stable

SMERA believes EIEL will maintain a stable business risk profile in the medium term on account of its experienced management and its established presence in the Jharkhand region. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins, improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	221.05	194.83	204.23
EBITDA	Rs. Cr.	4.90	4.42	4.99
PAT	Rs. Cr.	0.20	0.16	0.10
EBITDA Margin	(%)	2.22	2.27	2.44
PAT Margin	(%)	0.09	0.08	0.05
ROCE	(%)	8.76	6.90	7.77
Total Debt/Tangible Net Worth	Times	3.93	3.72	5.58
PBDIT/Interest	Times	8.88	8.99	11.86
Total Debt/PBDIT	Times	3.20	2.55	2.60
Gross Current Assets (Days)	Days	88	101	123

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

None

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profile of EIEL.

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 Instruments/Facilities	Term	Amount (Rs Crore)	Ratings/Outlook
10 th January' 2018	Cash Credit	Long Term	19.75	SMERA BB- (Issuer Not Co-operating)
	Channel Financing	Long Term	20.00	SMERA BB- (Issuer Not Co-operating)
14-October, 2016	Cash Credit	Long Term	19.75	SMERA BB-/Stable (Assigned)
	Channel Financing	Long Term	20.00	SMERA BB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.75	SMERA BB-/Stable (Re-affirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BB-/Stable (Re-affirmed)

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ABOUT SMERA

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