



Press Release
Eros Motors Private Limited

July 16, 2018

Rating Reaffirmed and Assigned

Total Bank Facilities Rated	Rs.33.50 crore (Enhanced from Rs. 23.75 Cr.)
Long Term Rating	ACUITE BB+/ Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) and short term rating of '**ACUITE A4+** (read as ACUITE A4 plus) on the Rs.23.75 crore bank facilities. Acuité has also assigned the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) on the Rs.9.75 crore bank facilities of EROS Motors Private Limited (EMPL). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenues and profitability while managing the working capital efficiently. However, the ratings are constrained by high gearing (debt-to-equity) and total outside liabilities to total net worth (TOL/TNW).

Incorporated in 1999, EROS Motors Private Limited (EMPL) was promoted by the late Mr. N P Pande and is presently managed by Mr. Anuj Pande and Directors. The company is an authorised dealer for sales, service and spares (SSS) of original equipment manufacturers (OEM's) - Hyundai Motor India Ltd for passenger cars, SML Isuzu Limited for bus, and Piaggio Vehicles Private Limited for sale of three and four-wheeler utility vehicle. The dealership is for the regions of Nagpur. EMPL further ventured into distributorship of tractors of Mahindra & Mahindra Ltd for Vidarbha region (excluding Nagpur, Yavatmal, Amravati and Chandrapur).

Key Rating Drivers

Strengths

• Experienced management and vintage of operational track record

Mr. Anuj Pande, Promoter and Managing Director of EMPL, has been in the automobile trading business for over two decades. Goodwill, trust, after sales service and long track record of operations are the key strengths of the company. EMPL's revenues have increased from Rs.150.86 crore in FY2015 to Rs.206.37 crore in FY2017. However, in FY2018, due to the impact of GST - sales has been slowed down marginally by around 8 percent. EMPL operates three showrooms for Hyundai, two showrooms for ISUZU, one showroom each for Piaggio and Mahindra & Mahindra. EMPL also operates two regional sales centers for Hyundai.

EMPL has reported healthy growth in its sales volumes from about 3200 vehicles in FY2016 to about 3800 vehicles in FY2018, a healthy growth of about 19 percent. Majorly, the growth is driven by sale of M&M tractors followed by marginal growth in Hyundai sales of 7.9 percent better than Hyundai's growth of 5.2 percent in FY2018 (Provisional). The dip in revenues is majorly attributed to Isuzu model vehicles and, sales of high number of low value models of Hyundai. However, the increase in the number of vehicles sold is expected to offer additional revenue source for the company in terms of servicing revenue and spares and accessories over the medium term.

• Comfortable working capital management

The working capital management is marked by Gross Current Assets (GCA) days of 74, inventory of 63 days, debtor collection period of 9 days and creditors of 17 days as on March 31, 2017. However In 2018, the company reported GCA of 85 days, inventory of 71 days, and debtor collection period

of 11 days and creditors of 15 days on provisional basis; the same is in line with the industry trend.
The company's working capital utilisation over the past six months stood at around 90 percent

ending April 2018. Majority of its purchases are against payment, except accessories which it buys from third party wherein it gets a credit of about a month. Acuité believes that the working capital management is expected to be efficient at the current levels over the medium term.

Weaknesses

- **Average financial risk profile**

The financial risk profile is marked by moderate net worth, moderate gearing (debt-to-equity) and debt protection metrics. The net worth is average at Rs.9.68 crore as on 31 March, 2018 (Provisional) against Rs.8.62 crore in 31 March, 2017. Gearing is high at 2.77 times as of March 31, 2018 (Provisional), as compared to 2.70 times as of March 31, 2017; also, its total outside liabilities to total net worth is high at 4.08 times (Provisional) in FY2018. EMPL's net cash accrual in FY2018 (Provisional) was about Rs.1.70 crore, against which it has repayment obligations of about Rs.0.65 crore. However, high utilisation of its working limits at about 90 percent, and yearly capex of about Rs.1.00 crore constrains the financial flexibility to some extent. Also, its debt protection metrics are average with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.96 times and 0.06 times respectively for FY2018 (Provisional). As the revenues are expected to improve in the range of 10-15 percent over the medium term which entails additional working capital limits, the improvement in the financial risk profile is marginal and is expected to be at similar levels.

- **Intense competition**

The Company is under the intense competition from dealers of other vehicle brands majorly from Maruti, Honda and TATA among others in the nearby region. The company is exposed to inherent cyclicalities in the Indian automobile industry as well as regulatory challenges in terms of tax rate changes, as witnessed in FY2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the EMPL to arrive at this rating.

Outlook: Stable

Acuité believes that EMPL will maintain a 'Stable' outlook over the medium term on account of the management's experience and established relations with automobile brands. The outlook may be revised to 'Positive' in case of sustained increase in revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management impacting the profitability and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	206.37	183.81	150.86
EBITDA	Rs. Cr.	4.75	4.27	4.32
PAT	Rs. Cr.	1.43	1.29	1.08
EBITDA Margin	(%)	2.30	2.32	2.86
PAT Margin	(%)	0.69	0.70	0.72
ROCE	(%)	14.25	14.99	33.91
Total Debt/Tangible Net Worth	Times	2.70	2.52	2.64
PBDIT/Interest	Times	2.59	2.94	2.20
Total Debt/PBDIT	Times	4.75	4.23	3.61
Gross Current Assets (Days)	Days	77	66	71

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
04-May-2017	Inventory Funding	Long Term	17.00	ACUITE BB+ (Indicative)
	Cash Credit	Long Term	4.00	ACUITE BB+ (Indicative)
	Term Loan	Long Term	0.75	ACUITE BB+ (Indicative)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
15-Mar-2017	Inventory Funding	Long Term	17.00	ACUITE BB+/Stable (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	0.75	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BB+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+ / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/Stable (Assigned)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Assigned)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+/Stable (Assigned)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+/Stable (Assigned)

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About Acuité Ratings & Research:

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