

Press Release

EROS MOTORS PRIVATE LIMITED

December 05, 2019



Rating Downgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 33.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE BB+** (read as ACUITE double B plus) to '**ACUITE BB**' (read as ACUITE double B) and reaffirmed the short-term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs. 33.50 crore bank facilities of EROS MOTORS PRIVATE LIMITED (EMPL). The outlook is '**Stable**'.

Rating downgrade reflects due to sharp decline in revenues and net cash accruals, increase in inventory levels, irregularities in debt servicing of External Dealer Financing Scheme (EDFS) facility and slowdown in automobile industry. The revenues have declined sharply marked by operating revenues of Rs.168.97 crore in FY2019 as against Rs.213.06 crore in FY2018 and Rs.206.53 crore in FY2017. Further, the net cash accruals have declined to Rs.1.93 crore as on 31 March 2019 from Rs.2.13 crore in FY2018 and Rs.2.26 crore in FY2017. This has led to higher reliance on external borrowings, marked by 80 per cent utilisation of working capital limits on an average for the past 6 months ending October, 2019. Also there was irregularity in EDPS facility in the month of September, 2019 which was regularized within 15 to 20 days. However, rating is supported by experience management.

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 other 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).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

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 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.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth and high debt protection measures and high gearing. The net worth of the company is moderate at Rs.15.00 crore as on 31 March 2019 as against Rs.13.57 crore as on 31 March 2018. The gearing (debt to equity) of the company stood at 1.67 times as on March 31, 2019 as against 2.03 times as on March 31, 2018. Total debt of Rs.24.98 crore consists of term loan of Rs.0.83 crore and working capital facility of Rs.24.14 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 2.44 times as on 31 March 2019 as against 2.76 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 2.01 times in FY2019 as against 2.33 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.08 times as on 31 March 2019 and as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 1.51 times in FY2019 as against 1.54 times in FY2018.

Weaknesses

- **Moderate profitability and decline in scale of operations**

The company has reported decline in revenue with negative compounded annual growth rate (CAGR) of around ~9.55 percent through the last three years ended 31 March, 2019. The company reported decline in revenue of ~20.69 percent with operating income of Rs.168.97 crore in FY2019 as against operating income of Rs.213.06 crore in FY2018. This is majorly because of the slowdown in the auto industry. However, the operating margins of the company marginally increased marginally to 2.97 percent in FY2019 from 2.31 percent in FY2018. Profit after Tax (PAT) marginally increased to 0.85 per cent in FY2019 from 0.68 per cent in FY2017.

Acuité believes that the scale of operations and profitability is exposed to the risk of slow-down in the automobile industry. Firm's ability to maintain the profitability and increase the scale of operations will be a key rating sensitivity.

- **Moderate working capital operations**

The working capital of EMPL is moderate in nature marked by increase in Gross Current Asset (GCA) days of 98 for FY2019 from 75 in the previous year. However, Inventory days has increased to 76 for FY2019 from 56 for FY2018, further debtor days stood at 12 in FY2019 as against 14. Further, the reliance on working capital facility is high, its utilization is around ~80 to 90 percent on an average for last 6 months ending October, 2019.

Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Stiff competition from other dealers and brands**

Automobile companies focusing on expanding its dealership network has resulted in increased competition within its own dealers. Furthermore, the firm competition is also with other automobile companies such as Honda, Bajaj, Maruti Suzuki to name a few.

Rating Sensitivity

- Increase in scale of operations to around Rs.200.00 to 250.00 crore.
- Decline in operating profitability of the firm to around 1.50 to 2.00 per cent.

Material Covenants

None.

Liquidity Position: Stretched

EMPL has stretched liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.93 crore in FY2019 as against Rs.2.13 crore in FY2018 and Rs.2.26 crore in FY2017, while its maturing debt obligation was around Rs.0.36 crore for FY2019, Rs.0.44 crore for FY2018 and Rs.0.65 crore for FY2017. The company's working capital operations are comfortable marked by moderate gross current asset (GCA) days of 98 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~80 to 90 percent during the last 6 months' period ended October, 2019. The company maintains unencumbered cash and bank balances of Rs.2.02 crore as on March 31, 2019. The current ratio of the company stands at 1.31 times as on March 31, 2019.

Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of slowdown in automobile industry.

Outlook: Stable

Acuité believes that the firm's outlook will remain 'Negative' over the medium term on account of continuous decline in revenues, increase in inventory levels and slowdown in the automobile industry. The rating may be downgraded in case of sustained decline in operating performance and deterioration in working capital operations. Conversely, the outlook may be revised to 'Stable' if the firm registers significant improvement in operating performance and liquidity position.

About the Rated Entity - Key Financials

Particulars	Unit	2019	2018
Operating Income	Rs. Crore	168.97	213.06
Profit after tax (PAT)	Rs. Crore	1.43	1.45
PAT margin	%	0.85	0.68
Total debt / Tangible Net worth	Times	1.67	2.03
PBDIT / Interest	Times	2.01	2.33

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-8.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
30th Sept 19	Inventory Funding	Long Term	17.00	ACUITE BB+ (Indicative)
	Cash Credit	Long Term	4.00	ACUITE BB+ (Indicative)
	Term Loan	Long Term	0.50	ACUITE BB+ (Indicative)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
	Inventory Funding	Long Term	2.00	ACUITE BB+ (Indicative)
	Inventory Funding	Long Term	6.00	ACUITE BB+ (Indicative)
	Inventory Funding	Long Term	1.00	ACUITE BB+ (Indicative)
	Inventory Funding	Long Term	1.00	ACUITE BB+ (Indicative)
16th July 18	Inventory Funding	Long Term	17.00	ACUITE BB+/Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.50	ACUITE BB+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Inventory Funding	Long Term	2.00	ACUITE BB+/Stable

				(Assigned)
	Inventory Funding	Long Term	6.00	ACUITE BB+/Stable (Assigned)
	Inventory Funding	Long Term	1.00	ACUITE BB+/Stable (Assigned)
	Inventory Funding	Long Term	1.00	ACUITE BB+/Stable (Assigned)
04th May 18	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)
	Inventory Funding	Long Term	17.00	ACUITE BB+ (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
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 (Downgraded from ACUITE BB+/Stable)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)

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About Acuité Ratings & Research:

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