

Press Release

Petal Motocon Private Limited

May 26, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned 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. 17.00 crore bank facilities of Petal Motocon Private Limited. The outlook is '**Stable**'.

Petal Motocon Private Limited (PMPL), a Gujarat-based company incorporated in 2005 was promoted by Mr. Sukhbir Singh Bagga and Mrs. Khushbukaur Bagga. The company is an automobile dealer for Hyundai Motors and Ashok Leyland. In FY2016-17, the company sold 1979 vehicles of Hyundai Motors and 410 of Ashok Leyland. PMPL has a 3S facility for Hyundai Motors and four showrooms and service centres for Ashok Leyland at Ahmedabad.

Key Rating Drivers

Strengths

- **Experienced management**

PMPL was incorporated in 2009. The promoter, Mr. Sukhbir Singh Bagga possesses more than 15 years of experience in the auto dealership business.

- **Efficient working capital management**

PMPL's working capital management is comfortable with Gross Current Assets (GCAs) of 43 days on account of low debtors and inventory days of 10 and 33 days respectively. The average utilisation in working capital limits has been ~90 percent in the last six months.

Weaknesses

- **Uneven revenues**

PMPL's operating income has shown an uneven trend for the period FY2014-FY2016. The operating income stood at Rs.140.86 crore in FY2016 as compared to Rs.150.71 crore in FY2015 and Rs.125.88 crore in FY2014. Sales for vehicles declined by 12.5 percent in FY2016 over the previous year vis-à-vis an increase of 23 percent in FY2015 as compared to FY2014. As informed by the management, the company booked revenue of Rs.147.84 crore in FY2017.

- **Thin profitability margins**

PMPL's profitability margins are thin due to the trading nature of business. The EBITDA margins stood at 2.80 percent in FY2016 as compared to 0.27 percent in FY2015. The PAT margins stood at 0.09 percent in FY2016 as compared to 2.69 percent in FY2015.

- **Below average financial risk profile**

PMPL's financial risk profile is below average marked by negative net worth of (Rs.3.55) crore as on 31 March, 2016 supported by unsecured loans of Rs. 3.54 cr which are subordinated to bank debt.

Further, to strengthen its liquidity position, the company has infused equity capital of Rs.3.00 crore in FY2016-17. The interest coverage ratio (ICR) stood at 1.39 times in FY2016 as compared to 0.12 times in FY2015.

• Intense market competition

With Hyundai focusing on expanding its dealership network, the competition among its own dealers is increasing. Furthermore, the company also faces competition from dealers of other automobile companies like Honda, Tata Motors, Maruti among others. Besides, launch of new models eats into the market share of Hyundai which in turn affects dealers including PMPL.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Petal Motocon Private Limited (PMPL) to arrive at the rating.

Outlook: Stable

SMERA believes that PMPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.12 crore on operating income of Rs.140.86 crore as against net profit after tax of Rs.4.05 crore on operating income of Rs.334.48 crore in the previous year. The net worth stood at Rs.33.07 crore as on 31 March 2016 as compared to Rs.29.55 crore as on 31 March 2015.

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>
- Entities In Services Sector - <https://www.smera.in/criteria-services.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)

Not Applicable

*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 Applicable	Not Applicable	Not Applicable	9.00	SMERA B / Stable
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	2.25	SMERA B / Stable

Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B / Stable
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B / Stable
Proposed Inventory Funding	Not Applicable	Not Applicable	Not Applicable	1.75	SMERA A4

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