

Press Release

Southern Motorcycles

22 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 26.50 Cr.
Long Term Rating	SMERA BBB-/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs.26.50 crore bank facilities of Southern Motorcycles. The outlook is '**Stable**'.

Southern Motorcycles (SM) is a partnership firm established in 1993 by Mr. Manjit Singh, (Managing Partner) and his wife Ms. Harleen Kaur. The firm is an authorised stockist of spare parts of Hero Moto Corp Limited (HMCL) in Chennai, Tamil Nadu. The firm started off with dealership of two wheelers of HMCL from February 2017 and currently has three showrooms in Chennai. The partners also have another partnership firm, Southern Motorcycles, Madurai established in June 2011. Both the firms are part of the SM group which was set up for distribution of spares of HMCL.

Analytical approach:

SMERA has considered the consolidated business and financial risk profiles of Southern Motorcycles and Southern Motorcycles, Madurai (hereinafter referred to as SM group) due to the common management and similarities in the lines of business.

Key rating drivers

Strengths

Experienced management: Southern Motorcycles (SM) is a partnership firm established in 1993 by Mr. Manjit Singh and his wife Ms. Harleen Kaur. The firm is an authorised stockist of Hero Moto Corp Limited' (HMCL) spare parts in Chennai region. Over the years, the partners have been able to establish comfortable relation with their OEM, HMCL.

Long standing relations with reputed principal: The SM group has been an authorised stockist of HMCL since 1993. Over the years, the group has been able to establish comfortable relationships with their OEM.

Increase in revenue and modest profitability: The operating income of the group increased to Rs.149.92 crore in FY2017 as compared to Rs.126.23 crore a year earlier due to increase in revenue from spare parts/stockist business supported by a network of 48 channel partners and

around 1150 retailers. The group has comfortable operating margins of 3.32 per cent in FY2017. The group generated a top line of Rs.81.95 crore (Provisional) till November 2017. The management anticipates growth in sales from Jan 2018 due to stabilisation of two-wheeler operations in Chennai.

Weaknesses

Average financial risk profile: The average financial risk profile is marked by low net worth levels, moderate gearing levels and modest debt protection metrics. The net worth stood at Rs.10.94 crore in FY2017 compared to Rs.7.63 crore in the previous year majorly due to retention of profit. The gearing levels stood at 1.24 times in FY2017 as against 1.49 times in the preceding year. The group avails of a cash credit limit of Rs.28.00 crore to support the working capital requirements. The Interest Coverage Ratio (ICR) stood at 2.88 times in FY2017. The Net Cash Accrual to Total Debt (NCA/TD) stood at 0.24 times and the Debt Service Coverage Ratio (DSCR) at a moderate 1.89 times in FY2017.

Working capital intensive operations: The SM group has Gross Current Assets (GCA) of 101 days for FY2017 against 107 days for FY2016. This is mainly because of inventory days of 50 and debtor days of 43 for FY2017. The group has moderate debtor days of 43 for FY2017 for genuine spare part stockist business. However, the group has recently enhanced its cash credit limits to Rs.28.00 crore, where utilisation levels for the past two months stood at ~70 per cent.

Outlook – Stable

SMERA believes that the outlook on the SM group will remain 'Stable' over the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' if the firm reports substantial growth in revenue along with improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or deterioration in financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	149.92	126.23	124.47
EBITDA	Rs. Cr.	4.97	4.29	3.78
PAT	Rs. Cr.	2.92	1.58	1.66
EBITDA Margin (%)	(%)	3.32	3.40	3.04
PAT Margin (%)	(%)	1.95	1.25	1.33
ROCE (%)	(%)	21.51	19.18	29.72
Total Debt/Tangible Net Worth	Times	1.24	1.49	3.13
PBDIT/Interest	Times	2.88	2.22	2.56
Total Debt/PBDIT	Times	2.74	2.65	5.13
Gross Current Assets (Days)	Days	101	107	92

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Criteria for Consolidation: <https://www.smerra.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): None

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.40	SMERA BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA BBB-/Stable (Assigned)

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ABOUT SMERA

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