

Press Release

Southern Motorcycles

April 09, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 26.50 crore bank facilities of SOUTHERN MOTORCYCLES (SM). The outlook is '**Stable**'.

The re-affirmation of the rating reflects moderate business risk profile, backed by promoter's extensive experience in the automobile dealership industry and established brand of its principal. These strengths are partially offset by moderate scale of operations, moderate financial profile, working capital intensive nature of its operations, low bargaining power with principals, and susceptibility to intense competition.

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) since inception. In February 2017, the firm diversified into dealership of two wheelers of HMCL, and currently has three showrooms in Chennai. The partners also have another partnership firm, 'Southern Motorcycles - Madurai' established in June 2011 which is into distribution of spares of HMCL.

Analytical Approach

Acuité 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 line of business. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Extensive industry experience of the promoter**

SM is a partnership firm established in 1993 by Mr. Manjit Singh and his wife Ms. Harleen Kaur. The firm is an authorised dealer of Hero Moto Corp Limited' (HMCL) for its entire range of two-wheelers in Chennai region and distributing the spare parts in Madurai region. The promoter, Mr. Manjit Singh has experience of more than three decades in the auto ancillary industry. Promoter's long-standing presence, established relationships with principals and revenue diversity in its dealerships related to Hero MotoCorp with the regular launch of new vehicles by the principal is expected to support in improving its business risk profile further.

- **Moderate working capital intensive nature of operations**

SM Group has moderate working capital operations as evident from Gross Current Asset (GCA) of 112 days as on March 31, 2018 as against 105 days as on March 31, 2017. The inventory days though moderate at 48 in FY2018, however, it is in line with the inventory holding levels of HMCL. The debtor days stood at 59 as on March 31, 2018, majorly due to receivable from vehicle financiers and credit in spares and accessories business which is about 30 per cent of total revenues. Moderate GCA lead to moderate utilisation of working capital limits over the past six months ended February 2019 at about 70 percent. Acuité believes that trading nature of operations, with huge varieties of spares and accessories, continue to be working capital intensive over the medium term.

Weaknesses

- Moderate scale of operations and profitability margins**

Over the past three years, SM Group's revenues are at a muted growth of about Rs.130 crore; partly owing to intense competition from dealers of other OEM's, change of government policies such as insurance coverage for five years, increasing interest rates, among others. Principals also encourage more dealerships (thereby increasing competition) and impose stiff sales target on dealers in order to improve penetration and sales. Being a limited value addition, given the trading nature of operations, has led to a modest operating margin of for most of the dealers at around 3.00-4.00 percent. Operating margins of the group are at 3.92 percent in FY2018, slightly improved against 3.66 percent in FY2017. For 10MFY2018, the group has reported revenues of about Rs.120.00 Crs, still moderate and further constrained by limited territory.

- Average financial risk profile**

SM Group's financial risk profile is characterised by high total outside liabilities to total net worth (TOL/TNW) and gearing, and average debt protection metrics. SM Group's TOL/TNW is high at around 3.58 times in FY2018, deteriorated from 3.26 times in FY2017; owing to trading nature and high reliance on working capital requirement. Its gearing (debt-to-equity) is high at 2.84 times in FY2018, deteriorated from 1.25 times in FY2017; driven by change of business model. Earlier, the firm avails trade credit from its supplier; whereas in FY2018, to avail cash discount for early payment, the firm availed higher working capital limits which resulted in high gearing levels. Further, the partners have withdrawn capital of about Rs.1.50 crore in FY2018 to setup a new business; its net worth is modest at about Rs.9.85 crore as on March 31, 2018. The debt coverage indicators are average as interest coverage ratio (ICR) stood at 1.90 times and net cash accrual to total debt stood at 0.09 times for FY2018 vis-à-vis 2.46 and 0.244 times respectively in FY2017. Acuite believes that with modest accruals of about Rs.2.50 crore, no repayment obligations and no significant debt-funded capex plans, the financial risk profile is expected improve marginally over the medium term.

Liquidity Position:

The liquidity position of the group is moderate marked by moderate cash accruals against no repayment obligations, however partly constrained by moderate working capital intensive operations. It has reported cash accruals of Rs.2.52 crore in FY2018. Its expected cash accruals are in the range of Rs.2.50-3.00 crore over the medium term and its repayment obligations are nil. The firm's working capital limits are utilised at about 70 per cent which gives moderate flexibility in time of need. In FY2018, the partners have withdrawn about Rs.1.50 crore, though the same has been reinfused in FY2019. Any significant withdrawal of capital may limit the financial flexibility. Acuite believes that liquidity profile of SM Group continues to be at moderate levels over the medium term.

Outlook: Stable

Acuite believes that SM Group will maintain a 'Stable' outlook over the medium term on account of the experience of its promoters in the auto dealership and ancillary business and strong principal - HMCL. The outlook may be revised to 'Positive' in case of substantial growth in revenues and profitability while improving its capital structure. The outlook may be revised to 'Negative' if there is significant stretch in its working capital management or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	134.48	149.92	126.23
EBITDA	Rs. Cr.	5.27	5.48	4.71
PAT	Rs. Cr.	2.11	2.92	1.58
EBITDA Margin	(%)	3.92	3.66	3.73
PAT Margin	(%)	1.57	1.95	1.25
ROCE	(%)	15.73	23.85	49.39
Total Debt/Tangible Net Worth	Times	2.84	1.25	1.49
PBDIT/Interest	Times	1.90	2.46	2.01
Total Debt/PBDIT	Times	5.26	2.44	2.31
Gross Current Assets (Days)	Days	112	105	110

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
22-Jan-2018	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.40	ACUITE BBB- / Stable (Assigned)
	Proposed Term Loan	Long Term	0.10	ACUITE BBB- / Stable (Assigned)

***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	25.00	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BBB- / Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

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