

Press Release

Sheikh Farid Automobiles Limited (SFAL)

April 04, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA B+/ Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs.7.00 crore bank facilities of Sheikh Farid Automobiles Limited (SFAL). The outlook is '**Stable**'.

SFAL is a Punjab-based company incorporated in 2011 by Mr. Vivek Garg, Mr. Hargobind Rai and Mr. Suprabha Gupta. The company is an authorised dealer of Mahindra and Mahindra (M&M's) entire range of passenger and utility vehicles, including XUV, Scorpio, Xylo among others. SFAL operates through two showrooms and three sales outlets in Punjab.

Key rating drivers

Strengths

Experienced management

SFAL is promoted by Mr. Vivek Garg who possesses more than two decades of experience in the auto dealership business.

Authorised dealer of M&M

SFAL is an authorised dealer of Mahindra & Mahindra since 2011. Over the years, the company has been able to establish stable relations with Original Equipment Manufacturers (OEM).

Weaknesses

Moderate scale of operations, exposure to the inherent cyclicity in the industry

SFAL registered operating income of Rs.42.29 crore for FY2017 (Provisional) against Rs.54.47 crore for FY2016 and Rs.65.78 crore for FY2015.

The operating income is linked to the inherent cyclicity in the automobile sector and subdued outlook for cars. Moreover, the prospects of SFAL are linked to the overall growth of Mahindra and Mahindra (M&M's) in India.

Average financial risk profile

SFAL has networth of Rs.8.24 crore as on 31 March, 2017 (Provisional) as against Rs.7.93 crore as on 31 March, 2016. The gearing (debt-to-equity) stood at 1.55 times as on 31 March, 2017 as against 1.95 times as on 31 March, 2016. The total debt of Rs.12.76 crore comprises working capital limit of Rs.10.23 crore and unsecured loan raised through promoters of Rs.2.52 crore.

The Interest Coverage Ratio stood at (ICR) 1.47 times for FY2017 (Provisional). Further, NCA/TD stood at 0.05 times for FY2017 (Provisional).

Stiff competition from dealers of other brands

The company is exposed to increased competition from other dealers of M&M as also from other automobile companies including Hyundai and Maruti Suzuki.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SFAL to arrive at the rating.

Outlook – Stable

SMERA believes that SFAL 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 revenue 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 revenues or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	42.29	54.47	65.78
EBITDA	Rs. Cr.	2.04	3.13	3.80
PAT	Rs. Cr.	(0.05)	0.16	0.44
EBITDA Margin	(%)	4.81	5.74	5.77
PAT Margin	(%)	(0.12)	0.30	0.66
ROCE	(%)	5.88	9.12	10.28
Total Debt/Tangible Net Worth	Times	1.55	1.95	2.55
PBDIT/Interest	Times	1.47	1.43	1.62
Total Debt/PBDIT	Times	6.27	4.95	5.22
Gross Current Assets (Days)	Days	102	100	101

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA B+/ Stable

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ABOUT SMERA

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