

Press Release

Ujjwal Autowheels Private Limited

July 29, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs.12.00 crore bank facilities of Ujjwal Autowheels Private Limited (UAPL). The outlook is '**Stable**'.

The downgrade is on account of continuous decline in revenue and operating margins for the past 3 years ended FY2019 (Provisional). The revenues have declined to Rs.94.36 crore in FY2018 as against Rs.121.52 crore in the previous year. Further, the revenues have declined to Rs.86.74 crore in FY2019 (Provisional). The operating margins have declined to 1.79 per cent in FY2019 (Provisional) from 2.68 per cent in the previous year. Further, the inventory levels have significantly increased to 69 days for FY2019 (Provisional) from 36 days in the previous year increasing company's reliance on external working capital funding.

UAPL, a Nashik-based company incorporated in 2006 by Mr. Minal Choudhary is an authorized dealer of Hyundai Motors India Limited. The company has 2 service centers and 1 showroom at Nasik, Maharashtra.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of UAPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and established track of operations

UAPL is an authorized dealer of Hyundai Motors India Limited in Nashik District of Maharashtra, managed by Mr. Minal Choudhary (Managing Director). He is an engineer, and has been in the same line of business for more than four decades. Before incorporation of UAPL, Mr. Choudhary was managing Ujjwal Agencies which is a partnership firm established in 1974 and is an authorized dealer of Forge Motors. UAPL also deals in spares and servicing facilities.

Acuité believes that UAPL will be able to sustain the existing business profile on the back of experienced management and established track record of operations in the auto dealership business.

• Moderate financial risk profile

The financial risk profile of UAPL is moderate marked by moderate net worth and debt protection measures and moderate gearing. The net worth of the company is moderate at around Rs.7.33 crore as on 31 March, 2019 (Provisional) as against Rs.5.94 crore as on 31 March, 2018. The company has followed a moderately aggressive financial policy as reflected by peak gearing of 2.02 times over the last three years through 2018-19. The gearing of the company stood at 1.91 times as on March 31, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.75 times as on 31 March, 2019 (Provisional) as against 2.25 times as on 31 March, 2018. The decrease in revenue levels coupled with fall in operating margins and increased reliance on external borrowings have resulted in deterioration of debt protection measures. Interest Coverage Ratio (ICR) declined to 2.48 times in FY2019 (Provisional) and 2.60 times in FY2018.

Acuité believes that the financial risk profile of UAPL will continue to remain moderate over the medium term on account of moderate net cash accruals.

Weaknesses

- **Increased inventory levels**

The inventory levels for UAPL has increased to 69 days for FY2019 (Provisional) as against 36 days in the previous year. However, this has also led to increase in Gross Current Asset days to 105 days in FY2019 (Provisional) as against 63 days in FY2018. The increased inventory has led to higher reliance on external working capital requirements, which has reflected in increase in interest cost in FY2019. Any further significant pile up in inventory will remain a key rating sensitivity factor.

- **Competitive industry scenario**

The automobile sector in India is going through a phase of de-growth market conditions. The growth in demand for automobiles is slowing down. Hence, in order to increase sales amidst the highly competitive Indian automobile sector, automobile dealers are likely to thin down their margins, which is being seen by fall in the operating margins of UAPL from 2.68 percent for FY2018 to 1.79 percent for FY2019.

Outlook: Stable

Acuité believes that UAPL will maintain a stable outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' in case of substantial growth in scale of operations while maintaining its profit margins. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitability or deterioration in the financial risk profile or deterioration in working capital.

Liquidity Position

UAPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.02 crore to Rs.1.41 crore during the last three years through 2018-19. The cash accruals of the company are estimated to remain around Rs.1.34 crore – Rs.1.60 crore during FY2020-22. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 105 in FY2019. Reliance on working capital borrowings has increased with utilization of 90 percent during the last 12 months period ended July 2019. UAPL maintains unencumbered cash and bank balances of Rs.3.88 crore as on March 31, 2019. The current ratio of the company stands at 1.33 times as on March 31, 2019. The company is likely to incur capex of Rs.0.10 crore – Rs.0.30 crore over the medium term which is expected to be funded by internal accruals. Acuité believes that the liquidity of UAPL is likely to remain moderate over the medium term on account of moderate cash accruals.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	86.74	94.36	121.52
EBITDA	Rs. Cr.	1.55	2.52	2.91
PAT	Rs. Cr.	1.00	0.73	1.11
EBITDA Margin	(%)	1.79	2.68	2.39
PAT Margin	(%)	1.15	0.78	0.92
ROCE	(%)	13.70	13.74	20.13
Total Debt/Tangible Net Worth	Times	1.91	2.02	1.87
PBDIT/Interest	Times	2.48	2.60	3.30
Total Debt/PBDIT	Times	4.74	4.72	3.31
Gross Current Assets (Days)	Days	105	63	53

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>

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
28-Jun-2019	Cash Credit	Long Term	12.00	ACUITE BBB- (Indicative)
25-Apr-2018	Cash Credit	Long Term	12.00	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	10.00	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Assigned)

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About Acuité Ratings & Research:

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