

Press Release

Aarson Motors

May 22, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 6.00 Cr. |
| Long Term Rating | SMERA B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) on the Rs. 6.00 crore bank facilities of Aarson Motors. The outlook is '**Stable**'.

Aarson Motors (AM) is a Chhattisgarh-based partnership firm established in 2001 by Mr. Sharad Goel and Ms. Banti Agrawal. The firm is authorised dealer of Hero Moto Corp (Two Wheelers) and is engaged in the sale of accessories, spare parts and servicing of vehicles. The showroom is located at Chhattisgarh. The firm operates through one showroom and three branches.

Key Rating Drivers

Strengths

- **Experienced management:**

The promoters have gained good insight about the industry as they have over a decade worth of experience.

- **Reputed principal:**

AM is an authorized dealer of Hero Moto Corp since 2001. Over the years, the firm has been able to establish stable relationships with their OEM. Hero Moto Corp is one of the largest manufacturers of two wheelers and is one of the fastest growing companies.

Weaknesses

- **Declining revenue trend along with uneven profitability:**

The firm has reported declining operating income last year. The company reported operating income of Rs.52.79 crore for FY2017 as compared to Rs.60.78 crore for FY2016. The decline in revenue in FY2017 was due to demonetization. Further, the automobile dealership activity is characterized with thin operating margins as the EBITDA margin stood at 2.99 percent for FY2017 as against 3.41 percent for FY2016. The company has reported net profit of Rs.0.76 crore for FY2017 and Rs.0.76 crore in the previous year. This is on account of high amount of interest cost. Further, the company has reported revenue of Rs.42.60 crore (Provisional) for the period April, 2017 - March, 2018.

- **Average financial risk profile:**

The financial risk profile of the firm is average. AM has low networth of Rs.2.03 crore as on 31 March, 2017 as against Rs.1.62 crore as on 31 March, 2016. The gearing (debt-to-equity) stood at 2.48 times as on 31 March, 2017 against 2.34 times as on 31 March, 2016. Total debt of Rs.5.04 crore comprises of working capital borrowings. Interest Coverage Ratio (ICR) stood at 2.33 times for FY2017 against 1.80 times for FY2016. NCA/TD stood at 0.18 times for FY2017 against 0.24 times for FY2016.

- **Stiff competition from other dealers of Hero Moto Corp and Brands:**

With Hero Moto Corp focusing on expanding its dealership network, it results in increased competition within its own dealers. Furthermore, the industry competition is also with other automobile companies like Honda, Bajaj to name a few. Launching new models at competitive prices, results into eating the market

share of Hero Moto Corp which in turn also affects its dealers including AM.

Analytical Approach

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

Outlook: Stable

SMERA believes that Aarson Motors will maintain a 'Stable' outlook over the medium term from promoter's vast experience in dealership business. The outlook maybe revised to 'Positive' in case of increase in cash accruals with improvement in financial profile. Conversely, the outlook maybe revised to 'Negative' in case of stretch in working capital management and financial profile.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 52.79 | 60.78 | 65.19 |
| EBITDA | Rs. Cr. | 1.58 | 2.07 | 1.54 |
| PAT | Rs. Cr. | 0.76 | 0.76 | 0.47 |
| EBITDA Margin | (%) | 2.99 | 3.41 | 2.36 |
| PAT Margin | (%) | 1.44 | 1.26 | 0.72 |
| ROCE | (%) | 23.15 | 27.91 | 33.96 |
| Total Debt/Tangible Net Worth | Times | 2.48 | 2.34 | 13.53 |
| PBDIT/Interest | Times | 2.33 | 1.80 | 1.64 |
| Total Debt/PBDIT | Times | 3.17 | 1.83 | 5.02 |
| Gross Current Assets (Days) | Days | 62 | 55 | 67 |

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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA B+ / Stable |
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA B+ / Stable |

Contacts

| Analytical | Rating Desk |
|--|---|
| Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in |
| Aishwarya Phalke Analyst - Rating Operations Tel: 022-67141156 aishwarya.phalke@smera.in | |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.