

Press Release

Ocean Motors Private Limited

April 26, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.50	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	62.50	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	66.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 66.00 crore bank facilities of Ocean Motors Private Limited (OMPL). The outlook is 'Stable'.

Rationale for reaffirmation

The rating reaffirmation is on account of improvement in the overall financial risk profile, primarily the capital structure of OMPL and the long association with MSIL. Additionally, the working capital cycle of the company was efficiently managed, by ensuring low inventory levels since the onset of the pandemic. However, the rating remains constrained as the revenue continues to stagnate at an average of ~Rs. 278.00 Cr through FY2019-21. Further, the semi-conductor shortage and rising fuel prices may adversely impact the manufacturing and demand for passenger vehicles. The revenue for FY2022 is expected to remain at ~Rs. 275.00-278.00 Cr.

About the Company

Ocean Motors Private Limited (Erstwhile Patel Service Center) is an Indore-Madhya Pradesh based company was established in the year 2002 as a proprietorship firm which was later reconstituted as a private limited company in the year 2011. The company was initially engaged as a Maruti Authorized Service Station and later in the year 2011 the company became the dealer of Maruti Suzuki India Limited (MSIL). The company is promoted by Mr. Mahendra Patel and Mr. Ravi Nagar. The company has all total 12 showrooms which include 10 showrooms of Maruti Suzuki and 2 showrooms of Nexa. All the showrooms are located in Madhya Pradesh.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of OMPL to arrive at this rating.

Acuite Ratings & Research Limited

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Key Rating Drivers

Strengths

- **Extensive management experience and long track record of operations:**

OMPL (Erstwhile Patel Service Center) was established in the year 2002 as a proprietorship firm and was engaged as a Maruti Authorized Service Station. Later in the year 2011, it became the dealer for passenger vehicle segment of Maruti Suzuki India Limited (MSIL). The company has an established track record of operation of two decades in the automobile industry. The company benefits from its association with MSIL (market share of MSIL is 46.8% in the Indian Automobile Industry) and also due to the company's aggressive marketing strategy. Further, the promoters - Mr. Mahendra Patel and Mr. Ravi Nagar have been associated with the aforementioned industry for more than two decades.

Acuité believes that the company will benefit from experienced management and association with MSIL.

- **Efficient working capital management:**

The working capital (WC) cycle of the company was efficiently in FY2021 with WC cycle days reduced to 20 against 33 in FY2020. The reduction in WC cycle can be attributed to fall in inventory days by 12 compared to previous year. Since the onset of the pandemic in FY2021 and the resultant volatility in consumer demands, the company has been maintaining low inventory levels. The low inventory levels led to lower bank limit utilization at 12 percent for the 13-month period ended January 2022.

However, the inventory levels continue to remain modest in FY2022 until January due to reduction in automobile supplies from MSIL, owing to semiconductor shortage.

- **Improving financial risk profile:**

The overall financial risk profile of the company improved since FY2019. The change in the financial risk profile can be attributed to moderate accretion to reserves, introduction of quasi - equity and reduced dependence on short term debt, attributable to the decline in inventory levels. The total net worth and total debt stood at Rs. 21.55 Cr and Rs. 20.88 Cr as on March 31, 2021 against Rs. 15.51 Cr and Rs. 44.55 Cr as on March 31, 2019 respectively. The overall gearing stood at 0.97 times as on March 31, 2021 against 2.87 times as on March 31, 2019. The leverage policy of the company evolved from aggressive to moderate through FY2019-21. The company has availed term loan of Rs. 12.25 Cr for purpose of building its Nexa showroom at Bhopal. The total project cost is Rs. 17.00 Cr. The showroom is expected to be operational by September 2023. Going forward, the leverage policy is expected to remain moderate in FY2022-23 with debt to equity in the range of ~1.14-1.47 times, despite availing term loan and increase in short term debt due to gradual recovery of operations. Further, the operating margins earned ensure moderate debt protection metrics with debt service coverage ratio (DSCR) and interest coverage ratio (ICR) of 1.21 times and 2.40 times as on March 31, 2021 against 1.19 times and 2.09 times as on March 31, 2020 respectively.

Weaknesses

- **Modest and stagnating scale of operations:**

The revenue of the company declined modestly by 2.59 percent since FY2020. The company reported total revenue of Rs. 263.35 Cr in FY2021. OMPL revenue in FY2022 until January is Rs. 240 Cr. The company generates about 80% of its total revenue from passenger vehicle sales and the rest from its service station business. The total number of units sold until Q3 FY2022 modestly increased to 3421 units against 3363 units during the same period in the previous year. Further, sales composition of vehicles under Nexa increased to 1048 units until Q3FY2022 compared to 897 units in the previous year, thereby the aggregate selling price per unit increased to 6,23,560 from 5,12,000 in the previous year. The operating margins of the company in FY2021 stood at 2.93 percent, however, the operating margins are expected to be around 3.10-3.50 percent FY2022 considering the increased sale of vehicles under Nexa (premium segment of MSIL).

Acuite believes, the revenue growth is expected to remain sluggish in the short term owing to semi-conductor shortage, thereby impacting passenger vehicle manufacturing by OEM's. Additionally, the sales from affordable automobile division of MSIL is expected to witness further decline considering the rising fuel prices.

• **Exposure to risks related to low bargaining power with principal and to intense competition in passenger vehicle segment:**

OMPL is a Madhya Pradesh-based dealer for MSIL's passenger vehicles. It faces intense competition from other MSIL dealers and has limited bargaining power with its principal. Furthermore, OMPL also faces competition from dealers of other OEM's like Tata motors, Toyota, Mahindra, VW, Skoda, Nissan and Honda. In November 2021, MSIL lost ~7.30 percent of its market share and despite the semi-conductor shortage and ongoing pandemic Tata motors gained total market share of 13% in the same period.

Rating Sensitivities

- Substantial improvement in the scale of operation, while maintaining profitability margin.
- Stretch in the working capital cycle resulting into increased reliance on working capital borrowings.
- Any further, debt funded capital expenditure that adversely impacts the financial risk profile.

Material covenants

None.

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated net cash accruals (NCA) of Rs.3.50-4.17 Cr through 2019-21, while its' maturing debt obligation were in the range of Rs.3.06-3.27 Cr for the same period. The cash accrual of the company is estimated to remain around Rs.5.43-5.05 Cr in FY2022-21 against repayment obligations of around Rs.4.05- 3.05 Cr during the same period. The average bank limit utilization stood at an average of 12 per cent for 10 months ended January, 2022. The company maintains unencumbered cash and bank balances of Rs.0.98 Cr as on 31 March 2021. The current ratio has improved to 1.37 times as on 31 March 2021 from 1.00 time as on March 31, 2020.

Outlook: Stable

Acuite believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and efficient working management. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while maintaining its operating margins and its financial risk profile. Conversely, the outlook may be revised to "Negative", if the company registers lower than expected growth in revenues and profitability or deterioration in the company's financial risk profile or significant elongation in the working cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	263.35	270.36
PAT	Rs. Cr.	1.40	1.32
PAT Margin	(%)	0.53	0.49
Total Debt/Tangible Net Worth	Times	0.97	1.97
PBDIT/Interest	Times	2.40	2.09

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

CRISIL vide its press release dated 24 March 2021, has classified OMPL as 'Issuer Not Cooperating' and rated 'CRISIL B+/Stable'.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Feb 2021	Term Loan	Long Term	1.58	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- (Withdrawn)
	Inventory Funding	Long Term	10.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Inventory Funding	Long Term	3.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Secured Overdraft	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Inventory Funding	Long Term	12.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Working Capital Term Loan	Long Term	1.27	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Inventory Funding	Long Term	1.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Cash Credit	Long Term	10.00	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Term Loan	Long Term	7.90	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Term Loan	Long Term	0.43	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Bank Guarantee	Short Term	3.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	0.32	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Channel Financing	Short Term	7.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Channel Financing	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Working Capital Term Loan	Long Term	2.49	ACUITE BB (Downgraded and Issuer not co-operating*)
	Secured Overdraft	Long Term	6.37	ACUITE BB (Downgraded and Issuer not co-operating*)
	Channel Financing	Short Term	5.00	ACUITE A4+ (Issuer not co-operating*)

05 Jan 2021	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	5.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Inventory Funding	Long Term	1.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	9.20	ACUITE BB (Downgraded and Issuer not co-operating*)
	Channel Financing	Short Term	7.00	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	2.05	ACUITE BB (Downgraded and Issuer not co-operating*)
		Long		ACUITE BB (Downgraded and Issuer not co-operating*)
10 Oct 2019	Term Loan	Term	1.39	co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Inventory Funding	Long Term	3.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Inventory Funding	Long Term	12.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	2.05	ACUITE BB+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	5.00	ACUITE BB+ (Issuer not co-operating*)
	Working Capital Term Loan	Long Term	2.49	ACUITE BB+ (Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB+ (Issuer not co-operating*)
	Inventory Funding	Long Term	12.00	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	9.20	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	1.39	ACUITE BB+ (Issuer not co-operating*)
	Channel Financing	Short Term	7.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ (Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB+ (Issuer not co-operating*)
	Inventory Funding	Long Term	1.00	ACUITE BB+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Issuer not co-operating*)
	Channel Financing	Short Term	5.00	ACUITE A4+ (Issuer not co-operating*)
	Inventory Funding	Long Term	3.00	ACUITE BB+ (Issuer not co-operating*)
	Secured Overdraft	Short Term	6.37	ACUITE A4+ (Issuer not co-operating*)
	Inventory Funding	Long Term	1.00	ACUITE BB+ Stable (Assigned)

18 Aug 2018	Inventory Funding	Long Term	3.00	ACUITE BB+ Stable (Assigned)
	Channel Financing	Short Term	7.00	ACUITE A4+ (Assigned)
	Channel Financing	Short Term	5.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Assigned)
	Secured Overdraft	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Inventory Funding	Long Term	12.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	2.05	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	9.20	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	1.39	ACUITE BB+ Stable (Assigned)
	Working Capital Term Loan	Long Term	2.49	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)
	Secured Overdraft	Long Term	6.37	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	6.10	ACUITE BBB- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.57	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Prime Limited	Not Applicable	Term Loan	Not available	Not available	Not available	22.85	ACUITE BBB- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.98	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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