

Press Release

Bellad And Company

November 16, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 35.91 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 35.91 crore bank facilities of Bellad And Company (B&C). The outlook is '**Stable**'.

Established in 1965, B&C is a partnership firm engaged in dealership of various automobiles products for Hero Moto Company, Hyundai, Swaraj Tractors and Class Harvesters. The firm is led by its Partners, Mr. Arvind C Bellad and Mrs. Smriti A Bellad. It has showrooms in Hubli, Dharwad, Mudhol, Badami, and Belgaum.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the B&C to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

B&C was established in 1965 and is led by its Partners who possess experience of more than two decades in automobile industry. Acuité believes that B&C will continue to benefit from its experienced management and established relationships with customers.

- **Established market position in auto dealership**

B&C has an established market position in the auto dealership segment marked by its long-standing presence and established relationships with brands. Also, it has healthy revenue diversity as reflected in its various dealerships related to Hero MotoCorp, Hyundai, Sony, Swaraj Tractors and Class Harvesters. B&C has its operations spread across five showrooms located at in Hubli, Dharwad, Mudhol, Badami, and Belgaum regions.

- **Moderate working capital operations**

The working capital operation is marked by Gross Current Assets (GCA) of 92 days in FY2018 (Provisional) as against 77 days in FY2017. The inventory and debtor levels stood at 42 and 44 days in FY2018 (Provisional) as against 34 and 30 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at 60 to 80 percent in the last six months. Acuité believes that the working capital requirements will continue to remain high over the medium term on account of its moderate inventory and debtor requirements.

Weaknesses

- **Decline in scale of operations and moderate profitability**

The firm has reported decline in revenue with operating income of Rs.156.98 crore in FY2018 (Provisional) as against operating income of Rs.175.11 crore in FY2017. The operating margins of the firm remained moderate at around 3.91 percent in FY2018 (Provisional) as against 3.26 percent in FY2017.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth, debt protection measures and gearing. The net worth of the firm is moderate at Rs.15.91 crore as on 31 March, 2018 (Provisional) as against Rs.11.14 crore as on 31 March, 2017. The gearing of the firm has improved to 2.02 times as on March 31, 2018 (Provisional) from 2.47 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.57 times as on 31 March, 2018 (Provisional) as against 4.21 times as on 31 March, 2017.

The moderate revenue levels coupled with moderate operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 1.80 times in FY2018 (Provisional) and 1.83 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 (Provisional) as against 0.10 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.80 times in FY2018 (Provisional) as against 1.83 times in FY2017. Acuité believes that the financial risk profile of B&C will improve over the medium term on account of its improving net cash accruals and conservative financial policy.

- **Stiff competition from other dealers and brands along with exposure to geographic concentration**

Automobile companies focusing on expanding its dealership network has resulted in increased competition within its own dealers. Furthermore, the company competition is also with other automobile companies such as Honda, Bajaj, Maruti Suzuki to name a few. The firm also faces significant geographic concentration as its operations, including all its showrooms and service centers, are concentrated in Karnataka. Any deterioration in the economy, especially in Karnataka, will affect auto sales, which eventually will affect auto dealers.

Outlook: Stable

Acuité believes that B&C will continue to maintain 'Stable' outlook over the medium term from the industry experience of its partners. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in B&C's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	156.98	175.11	187.03
EBITDA	Rs. Cr.	6.13	5.71	5.85
PAT	Rs. Cr.	0.79	0.89	1.12
EBITDA Margin	(%)	3.91	3.26	3.13
PAT Margin	(%)	0.50	0.51	0.60
ROCE	(%)	10.46	11.78	12.88
Total Debt/Tangible Net Worth	Times	2.02	2.47	3.02
PBDIT/Interest	Times	1.80	1.91	2.02
Total Debt/PBDIT	Times	5.23	4.29	4.56
Gross Current Assets (Days)	Days	92	77	67

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

None

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>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.49	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.91	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.07	ACUITE BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.25	ACUITE BB / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB / Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE BB / Stable

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About Acuité Ratings & Research:

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