

Press Release

Bellad And Company

November 05, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 35.91 Cr.
Long Term Rating	ACUITE BB / Outlook: Negative (Rating reaffirmed; Outlook revised)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 35.91 crore bank facilities of BELLAD AND COMPANY (B&C). The outlook is revised from '**Stable**' to '**Negative**'.

Outlook revised to negative

Revision of outlook to negative on account of continuous decline in revenues, increase in inventory levels and slowdown in automobile industry. The revenues have decrease marked by operating revenues of Rs.149.51 crore in FY2019 as against Rs.157.18 crore in FY2018 and Rs.175.11 crore in FY2017. Further, the inventory has increased to Rs.20.37 crore as on 31 March 2019 (PY: Rs.16.36 crore). This has led to higher reliance on external borrowings, marked by full utilisation of working capital limits.

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 Mr. Arvind C Bellad and Mrs. Smriti A Bellad. The firm has showrooms in Hubli, Dharwad, Mudhol, Badami, Haveri and Gokak.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

B&C commenced operations from 1965. The firm is promoted by its partners, Mr. Arvind C. Bellad and Mrs. Smriti A. Bellad who collectively possesses experience of over two decades' automobile industry. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers.

Acuite believes that the firm will continue to benefit from its experienced management and established relationships with customers and suppliers.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and high gearing. The net worth of the firm is moderate at Rs.13.87 crore as on 31 March 2019 as against Rs.13.33 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood at 1.86 times as on March 31 2019 as against 1.81 times as on March 31 2018. Total debt of Rs.25.74 crore consists of term loan of Rs.3.99 crore and working capital facility of Rs.21.75 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 3.12 times as on 31 March 2019 as against 3.10 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 1.87 times in FY2019 as against 1.80 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.11 times as on 31 March 2019 and as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 1.80 times in FY2019 as against 1.74 times in FY2018.

Weaknesses

• Moderate profitability and decline in scale of operations

The firm has reported moderate decline in revenues with negative compounded annual growth rate (CAGR) of around ~7.60 percent through the last three years ended 31 March, 2019. The firm reported decline in revenue of ~4.88 percent with operating income of Rs.149.51 crore in FY2019 as against operating income of Rs.157.18 crore in FY2018. The operating margins of the firm marginally increased to 3.80 percent in FY2019 from 3.70 percent in FY2018.

Acuite believes that the scale of operations and profitability is exposed to the risk of slow-down in the automobile industry. Firm's ability to maintain the profitability and increase the scale of operations will be a key rating sensitivity.

• 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 firm 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.

Rating Sensitivity

- Increase in scale of operations to around Rs.175.00 to 200.00 crore.
- Decline in operating profitability of the firm to around 1.00 to 1.50 per cent.

Material Covenants

None.

Liquidity Position: Stretched

B&C has stretched liquidity marked by moderate net cash accruals. The firm generated cash accruals of Rs.2.78 crore in FY2019 as against Rs.2.71 crore in FY2018 and Rs.2.79 crore in FY2017. The inventory levels have increased in FY2019 marked by inventory days of 52 days (PY: 39 days). The increase in inventory days has led to higher reliance in external borrowings marked by full utilisation of bank limits for last six months ending September 2019. The firm maintains unencumbered cash and bank balances of Rs.3.81 crore as on March 31, 2019. The current ratio of the firm stands at 1.42 times as on March 31, 2019.

Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of slowdown in automobile industry.

Outlook: Negative

Acuite believes that the firm's outlook will remain 'Negative' over the medium term on account of continuous decline in revenues, increase in inventory levels and slowdown in the automobile industry. The rating may be downgraded in case of sustained decline in operating performance and deterioration in working capital operations. Conversely, the outlook may be revised to 'Stable' if the firm registers significant improvement in operating performance and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	149.51	157.18	175.11
EBITDA	Rs. Cr.	5.68	5.82	5.71
PAT	Rs. Cr.	1.00	0.91	0.89
EBITDA Margin	(%)	3.80	3.70	3.26
PAT Margin	(%)	0.67	0.58	0.51
ROCE	(%)	12.18	12.59	11.78
Total Debt/Tangible Net Worth	Times	1.86	1.81	2.47
PBDIT/Interest	Times	1.87	1.80	1.91
Total Debt/PBDIT	Times	3.98	3.66	4.29
Gross Current Assets (Days)	Days	88	76	77

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-8.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
16th Nov 18	Inventory Funding	Long Term	9.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	0.42	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.49	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	2.91	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	0.15	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	0.07	ACUITE BB / Stable (Assigned)
	Cash Credit	Long Term	15.25	ACUITE BB / Stable (Assigned)
	Overdraft	Long Term	5.00	ACUITE BB / Stable (Assigned)
	Bank guarantee	Short Term	1.40	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.22	ACUITE BB / 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
Inventory funding	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE BB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE BB/ Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BB/ Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.73	ACUITE BB/ Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.13	ACUITE BB/ Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.03	ACUITE BB/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.25	ACUITE BB/ Negative (Reaffirmed)
Over draft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/ Negative (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A4+ (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	6.12	ACUITE BB/ Negative (Reaffirmed)

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