

Press Release

Dharmana Motors

December 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 10.00 crore bank facilities of Dharmana Motors (DM). The outlook is '**Stable**'.

DM was established as a partnership firm in March 2012 by Mr. Sasidhar Dharmana, Mr. Dharmarao and Mrs. Aruna. DM is an authorised dealer of T V S Motor Company Limited (TVS) for sales-service-spares (SSS) of two-wheelers. It operates two showrooms at Srikakulam and Gajuwaka in the State of Andhra Pradesh.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced promoters and established position as an authorised dealer of TVS in Andhra Pradesh**

DM was established in 2012, it is engaged in two-wheeler dealership business. The promoters Mr. Sasidhar Dharmana and Mr. Dharmarao have two decades of experience in the retailing business. The management is supported by experienced sales team to expand the reach and penetrate into the market. Acuité believes that the entity will continue to benefit from its experienced management and established relations with its principal.

- Improving scale of operations though modest, and profitability margins**

DM has witnessed y-o-y growth in revenues over the last three years driven by increase in sales volume, introduction of new models, and deep penetration into the suburban and rural areas. Over the past three years, DM's revenues increased at a compound annual growth rate (CAGR) of about 36 percent with revenue of Rs.46.4 crore in FY2018. Operating margins have improved slightly to 4.05 percent in FY2018 against 3.46 percent in FY2017 owing to improving scale of revenues. However, the operating income of the firm is modest at Rs.40.58 crore for FY2018 in two-wheeler dealership segment. This is partly attributed to geographical concentration in revenues from two regions only. Acuité believes that the revenue profile is expected to be at similar levels owing to the dealership at two locations, and competitive segment.

Weaknesses

- Below Average financial risk profile**

DM's financial risk profile is characterised by high total outside liabilities to total net worth (TOL/TNW), below average debt protection metrics though supported by moderate capital structure. DM's TOL/TNW is high at around 4.16 times as on March 31, 2018; owing to trading nature and high reliance on working capital requirement. The debt coverage indicators are below-average as interest coverage ratio (ICR) stood at 1.44 times and net cash accrual to total debt at 0.10 times for FY2018. Its gearing (debt-to-equity) is comfortable at 1.69 times as on March 31, 2018; its net worth is modest at about Rs.3.45 crore as on March 31, 2018. Being a partnership concern, withdrawal of capital is a key rating sensitivity factor.

Acuité believes that with modest accruals of about Rs.0.50 crore, no repayment obligations, no significant debt-funded capex plans and working capital intensive operations, the financial risk profile is expected to be at similar levels over the medium term.

• Working capital intensive nature of operations

DM has high working capital operations as evident from Gross Current Asset (GCA) days of 136 as on March 31, 2018 as against 118 days as on March 31, 2017. The GCA days were high mainly due to high inventory. The inventory days though high at 95 in FY2018, however, it is in line with the inventory holding levels of TVS. It is to maintain sufficient number of vehicles model-wise. The debtor days stood at 24 as on March 31, 2018, majorly receivable from vehicle financiers. Low margins and high GCA lead to high utilisation of working capital limits over the past six months ended October 2018 at about 96 percent. Acuité believes that the working capital operations of the firm will remain high as evident from moderate collection mechanism, and high inventory levels in the business.

Outlook: Stable

Acuité believes that DM will maintain a 'Stable' outlook over the medium term on account of the experience of its promoters in the auto dealership business coupled with authorised dealership of TVS. The outlook may be revised to 'Positive' in case of substantial growth in revenues and profitability while improving its capital structure. The outlook may be revised to 'Negative' if there is significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	46.40	40.58	24.98
EBITDA	Rs. Cr.	1.88	1.41	0.87
PAT	Rs. Cr.	0.54	0.47	0.08
EBITDA Margin	(%)	4.05	3.46	3.47
PAT Margin	(%)	1.17	1.15	0.33
ROCE	(%)	20.65	15.00	15.37
Total Debt/Tangible Net Worth	Times	1.69	1.64	3.05
PBDIT/Interest	Times	1.44	1.45	1.13
Total Debt/PBDIT	Times	3.09	3.39	9.48
Gross Current Assets (Days)	Days	136	118	262

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 (Up to 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	ACUITE BB- / Stable
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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