

Press Release

Aditya Automobile Spares Private Limited

D-U-N-S® Number: 67-548-4276

March 19, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 14.50 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 14.50 crore bank facilities of Aditya Automobile Spares Private Limited (AAPL). The outlook is '**Stable**'.

AAPL, incorporated in 2001, is promoted by Mr. P. Selvakumar and his wife, Mrs. S Karthika. AAPL is engaged into trading of two-wheeler automobile spares and accessories of various OEMs. It has 6 stores across Tamil Nadu.

About the group company:

Rajkrishna Aditya Auto Store Private Limited (RAPL), incorporated in 2004, is promoted by Mr. P. Selvakumar and his wife, Mrs. S Karthika. The company is an authorised dealer for the spares and accessories of Maruti Suzuki India Limited (MSIL). The company has 19 distribution centers across Chennai, Madurai, Trichy, and Coimbatore, among others in Tamil Nadu and Pondicherry.

Analytical Approach

For arriving at the ratings, Acuite has consolidated the business and financial risk profiles of RAPL and AAPL; collectively referred to as Aditya Group or Group, as both the entities are into similar line of business and owned and managed by the same promoters. Extent of Consolidation: Full

Key Rating Drivers

Strengths

• Long presence of promoters in the automobile dealership business

The promoter, Mr P. Selvakumar has more than three decades of experience in the trading of automobile spares parts business. Prior to incorporation of RAPL and AAPL, the promoter was managing the family owned firms along with his father, late Mr. R Ponnusamy who started the business in 1971 under M/s Alagendran Auto parts Company. RAPL is an authorised automotive dealer of MSIL for spares and accessories; over a period, the firm penetrated into other regions of Tamil Nadu with coverage across 19 locations.

Further, the group is into trading of two-wheeler auto spares and accessories of various original equipment manufacturers (OEM's) of Yamaha, Kinetic, Bajaj, Hero Honda and TVS, among others. It operates six sales outlets across Coimbatore (Tamil Nadu). Long vintage of operations of nearly five decade and one stop shop for spares and accessories have supported in revenues of about Rs.110.00 crore. Acuite believes that with diversified geographic presence, vast product portfolio, diversified clientele, experienced management and operational track record, Aditya Group continues to enjoy the benefit of scale of operations over the medium term.

Weaknesses

• Below average financial risk profile

Aditya Group's financial risk profile is below average marked by high total outside liabilities to total net worth (TOL/TNW), high gearing (debt-to-equity) and debt protection metrics. The group's TOL/TNW and gearing are high at 4.37 and 2.26 times in FY2018, against 3.57 and 2.16 times in FY2017; high owing to trading nature of operations, low profitability and modest net worth of Rs.10.0 crore as on

March 31, 2018. Its operating margins are moderate and improving year-over-year at about 5.43 per cent in FY2018 against 4.03 per cent in FY2016; however, high interest expenses have resulted in low PAT margins at 1.46 per cent and moderate accruals. The group's debt protection metrics are moderate with interest coverage ratio (ICR) of 1.88 times and net cash accruals to total debt of 0.10 times for FY2018. The group reported cash accruals of Rs.2.32 crore in FY2018. Acuite believes that with trading nature of operations, moderate accruals and repayment of term loans and no significant capex plans, the financial risk profile is expected to improve marginally over the medium term.

• Working capital intensive operations

The operations are working capital intensive as evident from Gross Current Assets (GCA) of 154 days as on March 31, 2018 as against 111 days as on March 31, 2017. Primarily due to high inventory days and inventory days increased to 113 days in FY2018 as against 85 days in FY2017. The higher average inventory days are owing to dealing in 2-wheeler spares, wherein inventory days oscillated in 160-210 days; whereas in RAPL, the inventory days are about 40 days as per MSIL standards. Its operations are both cash and carry and offers credit to traders and garages with a credit period of about 30 days. This lead to high utilisation of bank lines at about 98 percent during the last 6-month period ended December 2018. Acuite believes that trading nature of operations, with huge varieties of spares and accessories continue to be working capital intensive over the medium term.

Liquidity Position:

The group's liquidity is moderate, marked by moderate net cash accruals to its maturing debt obligations though partly constrained by high bank line utilisation. The group has reported cash accruals of Rs.2.32 crore in FY2018; its accruals are estimated in the range of Rs.2.5 to 3.50 crore during 2019-21, while its repayment obligations are around Rs.0.60 crore. However, the cushion is absorbed into working capital operations. Its operations are working capital intensive which led to utilisation of limits at about 98 percent during the last 6-month period ended December 2018. The current ratio of the Group stood at 1.24 times as on March 31, 2018. Acuite believes that the liquidity profile of the Group is likely to remain moderate over the medium term on account of moderate cash accruals and working capital intensive operations over the medium term.

Outlook: Stable

Acuite believes that Aditya Group will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or any significant debt-funded capital expenditure 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.	114.29	110.11	110.11
EBITDA	Rs. Cr.	6.21	4.74	4.43
PAT	Rs. Cr.	1.67	0.94	0.81
EBITDA Margin	(%)	5.43	4.30	4.03
PAT Margin	(%)	1.46	0.85	0.73
ROCE	(%)	19.80	16.75	32.41
Total Debt/Tangible Net Worth	Times	2.26	2.16	2.29
PBDIT/Interest	Times	1.88	1.79	1.75
Total Debt/PBDIT	Times	3.50	3.73	3.68
Gross Current Assets (Days)	Days	154	111	93

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable

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About Acuité Ratings & Research:

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