

Press Release

Prime Movers Auto Associates Private Limited

January 23, 2023



Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|----------------------------------|-------------------------|
| Bank Loan Ratings | 12.00 | ACUITE BB+ Stable Assigned | - |
| Bank Loan Ratings | 37.95 | ACUITE BB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 6.30 | - | ACUITE A4+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 56.25 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

ACUITE has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.44.25 Cr., and has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.12.00 Cr bank facilities of Prime Movers Auto Associates Private Limited. The outlook remains '**Stable**'.

Rationale for the rating

The rating takes into account long track record of operations and extensive experience of the promoters in the automobile component dealership industry. The rating also factors in diversified product profile and established relationship with various principals. The rating is, however, constrained by working capital intensive nature of operations, average financial risk profile and the intense competition among the dealers

About the Company

Incorporated in 1986 by Mr. Nand Lal Kothari, Prime Movers Auto Associates Pvt Ltd is a Kolkata based company engaged in the business of distributorship of auto components. Mr. Nand Lal Kothari has a rich experience of ~45 years of dealing with auto components. Currently, the day to day operations is headed by his son Mr. Ajay Kothari. The company currently deals with the principal of Maruti Suzuki, Mahindra & Mahindra, Tata Motors Ltd, Mahindra Sona Limited, Hindustan Composites Limited and many more. It has its physical presence at 14 locations in West Bengal and 2 locations at Guwahati.

About the Group

Incorporated in 2011 and promoted by Mr. Nand Lal Kothari and his son Mr. Mr. Ajay Kothari-Prime Movers Auto Agency Private Limited is a Kolkata based company engaged in the distributorship of the auto components for Tata Motors Limited for small, light and medium commercial vehicles (grease, coolants, brake oil, accessories and durafit products).

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Prime Movers Auto Associates Private Limited and Prime Movers Auto Agency Private Limited to arrive at this rating. The consolidation is on account of common promoters and similar line of business. Prime Auto Associates holds 99 per cent stake in Prime Auto Agency. The group is, herein referred to as the 'Prime group.' **Extent of Consolidation:** Full.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The group has a long track record of over three decades in the distributorship of auto components. The group is promoted by Mr. Nand Lal Kothari having around 45 years of experience in automotive sector. He has been associated with the apex bodies of the automobile trade namely, "Federation of All India Automobile Spare Parts Dealer's Association" as President, "Confederation of West Bengal Trade Association" as Founder Vice President and "Calcutta Motor Dealers Association" as President. His son Mr. Ajay Kothari is also actively engaged in the business and has over 22 years of experience in the same line of business.

Diversified product profile and long standing relationship with various principals

The group's product profile is diversified where sales are spread across various auto components required for two-wheelers, passenger car segment, light commercial vehicles, SUVs, medium and heavy commercial vehicles. Further, the group deals in 24 models with around 56 variants, thereby reflecting heterogeneity in their product profile. Moreover, the group has long standing relationship with various principals namely, Maruti Suzuki India Limited, Mahindra & Mahindra Ltd, Tata Motors and many more.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked high Gross Current Assets (GCA) of 197 days in FY2022 as compared to 191 days in FY2021. The high GCA days is on account of high inventory period which stood at 79 days in FY2022. The group maintains an inventory of around 2-2.5 months. Further, the debtor days stood at 94 days in FY2022 as against 96 days in the previous year. The group provide credit period to customers of around 75-85 days. However, in order to improve the debtor period, the company has recently tied up with Procap and Axis bank for secondary channel finance. Acuite believes that, going forward, with this tie up, the working capital shall improve in the medium term. The impact of such tie up will remain a key monitorable.

Average financial risk profile

The average financial risk profile of the group is marked by modest net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the group increased to Rs.24.12 Cr as on March 31, 2022 from Rs.22.32 Cr as on March 31, 2021 due to accretion of profits. Gearing of the group stood high but improved at 2.30 times as on 31st March, 2022 as compared to 2.53 times in the previous year. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.72 times as on March 31, 2022 as compared to 2.89 times in the previous year.

The deterioration in the EBITDA margin in FY2022, owing to increase in other overheads further resulted in weakening of its debt protection metrics. The high debt, coupled with the pressure on EBITDA, translated into deterioration in their Debt to EBITDA levels. However, the debt protection metrics remained modest marked by Interest Coverage Ratio at 1.64 times and Debt Service Coverage Ratio at 1.21 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times as on 31st March 2022. Acuité believes that going forward the financial risk profile of the group will be sustained in the absence of any major debt funded capex plans.

Moderate scale of operations

The operating income of the group has increased to Rs.157.82 Cr in FY2022 as compared to Rs.152.20 Cr in the previous year due to increase in demand. Further, the revenue of the group stood at around Rs.125 Cr till December 2022 (Prov). The operating margin of the group moderated to 4.16 per cent in FY2022 as against 4.94 per cent in FY2021 due to increase in other overhead expenses. However, the PAT margin increased marginally to 1.14 per cent in FY2022 as against 1.08 per cent in the previous year due to decline in finance cost. Acuite believes that going forward, the margins shall remain moderate due to trading nature of operations.

Rating Sensitivities

- Increase in the scale of operations and improvement in the profitability margins
- Elongation in the working capital cycle

Material covenants

None.

Liquidity Position

Adequate

The group's liquidity is adequate marked by net cash accruals of Rs.2.24 Cr as against long term debt repayment of Rs.1.02 Cr over the same period. Further, the current ratio stood comfortable at 1.89 times as on March 31, 2022. The cash and bank balance stood at Rs.2.65 Cr as on March 31, 2022. However, the fund based and non-fund based limit remained highly utilised at 95 per cent for six months ended December, 2022. Moreover, the working capital intensive nature of operations of the firm is marked by high GCA days of 197 days as on March 31, 2022 as against 191 days in the previous year. Acuite believes that going forward the group will maintain adequate liquidity position due to moderate accruals. Moreover, the cash conversion cycle is expected to improve over the medium term backed by the upcoming tie up with Progcap and Axis bank for secondary channel finance.

Outlook: Stable

Acuite believes that Prime group will maintain 'Stable' outlook over the medium term from experienced management and established market position. The outlook may be revised to 'Positive' in case the group registers sustained growth in revenues while improving its profitability metrics and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile or if the working capital cycle further elongates.

Other Factors affecting Rating

None.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 157.82 | 152.20 |
| PAT | Rs. Cr. | 1.80 | 1.65 |
| PAT Margin | (%) | 1.14 | 1.08 |
| Total Debt/Tangible Net Worth | Times | 2.30 | 2.53 |
| PBDIT/Interest | Times | 1.64 | 1.41 |

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-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--|
| 25 Oct 2021 | Channel Financing | Long Term | 4.50 | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
| | Cash Credit | Long Term | 10.00 | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
| | Proposed Cash Credit | Long Term | 25.75 | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
| | Proposed Bank Facility | Short Term | 4.00 | ACUITE A4+ (Downgraded and Issuer not co-operating*) |
| 01 Feb 2021 | Channel Financing | Long Term | 4.50 | ACUITE BBB- (Issuer not co-operating*) |
| | Proposed Cash Credit | Long Term | 25.75 | ACUITE BBB- (Issuer not co-operating*) |
| | Proposed Bank Facility | Short Term | 4.00 | ACUITE A3 (Issuer not co-operating*) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB- (Issuer not co-operating*) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|-------------------------------------|----------------|------------------------------------|------------------|----------------|----------------|------------------|-------------------|----------------------------------|
| Bank of Baroda | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 4.80 | ACUITE A4+ Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 1.50 | ACUITE A4+ Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 13.50 | ACUITE BB+ Stable Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 3.00 | ACUITE BB+ Stable Assigned |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 9.00 | ACUITE BB+ Stable Assigned |
| Axis Bank | Not Applicable | Channel/Dealer/Vendor Financing | Not Applicable | Not Applicable | Not Applicable | Simple | 4.50 | ACUITE BB+ Stable Reaffirmed |
| Axis Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 0.55 | ACUITE BB+ Stable Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 3.59 | ACUITE BB+ Stable Reaffirmed |
| Bank of Baroda | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 1.86 | ACUITE BB+ Stable Reaffirmed |
| TATA Capital Financial Service Ltd. | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 2.94 | ACUITE BB+ Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 1.01 | ACUITE BB+ Stable Reaffirmed |
| TATA Capital Financial Service Ltd. | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | Simple | 10.00 | ACUITE BB+ Stable Reaffirmed |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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