

Press Release

J S Fourwheel Motors Private Limited

April 17, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 17.00 crore bank facilities of J S Fourwheel Motors Private Limited (JSFM). The outlook is '**Stable**'.

Rajasthan-based, JSFM was incorporated in 1985 by Mr. Nikunj Sanghi and his family. JSFM is an authorised dealer for Mahindra and Mahindra Limited (M&M) for passenger cars, utility vehicles, buses and trucks (except for two wheelers and tractors) and Hero MotoCorp Limited (HML) for two wheelers. JSFM operates in eastern part of Rajasthan including Alwar, Karauli, Bharatpur and Dholpur.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of JSFM to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track of operations backed by healthy relationship with suppliers**

JSFM was incorporated in 1985. The company has an established track record of more than three decades with operations in Rajasthan. The key promoter, Mr. Nikunj Sanghi has been associated with the automobile dealership industry for three decades and is ably assisted by an experienced second line of management. Before promoting JSFM, the promoter held an experience of nearly a decade in the aforementioned industry. Currently, the day to day operations of the company are managed by Mr. Rishabh Sanghi, who has experience of more than a decade.

JSFM has been affiliated with M&M since its inception and later in 2005, the company acquired dealership for HML. The company has diversified presence across passenger cars, utility vehicles, buses and trucks (accounting for 70 percent of turnover) and two-wheelers (accounting for 30 percent of turnover). Previously, JSFM was dealing with light commercial vehicle (LCV). Since 2016, the company has also ventured into dealing of medium and heavy commercial vehicle segment (MHCV) as well.

Acuité believes that the company will continue to benefit through the promoter's industry experience and presence in various segments backed by strong relationships with principal suppliers such as M&M and HML over the medium term.

- **Healthy financial risk profile and working capital**

JSFM has healthy financial risk profile marked by adequate net worth, low gearing and healthy debt protection metrics. The tangible net worth of the company stood at Rs.37.46 crore as on March 31, 2018 against Rs.31.76 crore as on March 31, 2017. The gearing (debt-equity) remained comfortable at 0.56 times as on March 31, 2018 against 0.85 times as on March 31, 2017. The total debt outstanding of Rs.21.08 crore as on 31 March, 2018 consists of unsecured loan from Director of Rs. 4.56 crore and working capital borrowing of Rs.16.52 crore. The company generated net cash accruals of Rs.6.75 crore for FY2018 as against debt obligation of Rs. 1.21 crore. The healthy margins and prudently geared capital structure have contributed to the robust cash accruals.

The leverage and coverage indicators continue to remain healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood healthy at 10.51 times for FY2018

as against 5.94 times for FY2017. DSCR stood at 3.50 times in FY2018 as against 1.94 times in the previous year. Total outside liabilities to tangible net worth has remained at 0.93 times as on 31 March, 2018 as against 1.23 times as on 31 March, 2017. The company maintains comfortable working capital cycle as the same stood at 59 days for FY2018 as against 71 days in the previous year. This is on account of low inventory maintained by the company and quick receivables. The liquidity position of the company is comfortable as the average working capital limit utilisation stood at around 60 percent for the last six months ended February, 2019. Further, the healthy internal accruals are likely to result in lower dependence on external borrowings for meeting its working capital requirements.

Acuite believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

• Limited bargaining power with suppliers and exposures to intense competition

Though JSFM is the sole dealer for M&M and HML in the districts it operates in, the company faces intense competition from dealers of other original equipment manufacturers (OEMs). Also, the principal suppliers face competition from other OEMs. Competition has been intensifying across segments, driven by the entry of new players. Sale of vehicles is subject to changing consumer tastes, the popularity of the OEMs, and the intensity of competition with other dealers. JSFM's business risk profile will be constrained over the medium term by limited bargaining power with suppliers and intense competition in the automotive dealership market. Further, the rating is constrained by the inherent cyclicity in the automobile sector and subdued outlook for passenger cars. Moreover, the prospects of JSFM are linked to the overall growth of M&M and HML.

Liquidity Position:

JSFM has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.79 to Rs.6.75 crore during the last three years through 2016- 18, while its maturing debt obligations were in the range of Rs.1.21–1.84 crore over the same period. The cash accruals of the company are estimated to remain around Rs.6.79-7.71 crore during 2019-21 while its repayment obligations are nil. The company's operations are comfortable working capital as marked by gross current asset (GCA) days of 59 in FY2018. The cash credit limit in JSFM remains utilized at 50 per cent during the last 6 months period ended February 2019. The company maintains unencumbered cash and bank balances of Rs.7.22 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.62 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of expected healthy cash accruals over the medium term.

Outlook: Stable

Acuite believes that JSFM will maintain 'Stable' outlook over the medium term from its experienced management and established association with principal suppliers. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	275.29	218.17	251.81
EBITDA	Rs. Cr.	10.60	7.61	9.58
PAT	Rs. Cr.	5.53	3.13	4.42
EBITDA Margin	(%)	3.85	3.49	3.80
PAT Margin	(%)	2.01	1.44	1.75
ROCE	(%)	15.44	10.02	26.39
Total Debt/Tangible Net Worth	Times	0.57	0.86	1.07

PBDIT/Interest	Times	10.51	5.94	7.51
Total Debt/PBDIT	Times	2.01	3.51	3.21
Gross Current Assets (Days)	Days	59	71	56

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A- / Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiteinratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.