

Press Release

JS FOURWHEEL MOTORS PRIVATE LIMITED

D-U-N-S® Number: 91-692-1146

July 01, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Negative (Outlook revised from Stable to Negative)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 17.00 crore bank facilities of J S FOURWHEEL MOTORS PRIVATE LIMITED. The outlook is revised to '**Negative**' from '**Stable**'.

Incorporated in the year 1985, JSFMPL is a Rajasthan based company. The company is promoted by Mr.Nikunj Sanghi and his family members. The Company is engaged in the authorized dealership 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. JSFMPL operates in eastern part of Rajasthan including Alwar, Karauli, Bharatpur and Dholpur.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of JSFMPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

JSFMPL was incorporated in the year 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 industry for three decades and is ably assisted by an experienced second line of management. Before promoting JSFMPL, the promoter held an experience of nearly a decade in the aforementioned industry. Currently, the day to day operation of the company is managed by Mr.Rishab Sanghi who has experience of more than a decade.

JSFMPL has been associated with M&M since its inception and later in the year 2005, the company associated itself with the dealership for HML. Previously, JSFMPL was dealing with light commercial vehicle but from 2016, the company has also ventured into dealing of medium and heavy commercial segment (MHCV) as well. Currently, the company has eight showrooms out of which four are owned and four are on rental basis.

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

- **Healthy Financial Risk Profile**

JSFMPL's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. JSFMPL's net worth is healthy estimated at around Rs.48.84crore (Prov.) as on March 31, 2020. The net worth levels have seen improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. As on March 31, 2020, the gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stands at 0.27 times (Prov.) and 0.60 times (Prov.) respectively as against to 0.51 times and 0.85 times respectively in FY2019. The company on the other hand generated cash accruals of Rs.5.79crore (Prov.) in FY2020 as against Rs.8.18crore in FY2019. JSFMPL's cash accruals over the next two years through 2022 are estimated to remain in the range of Rs.5.21crore to Rs.5.69crore. The gearing however is expected to be low at around 0.25 times as on March 31, 2021 on back of absence of any major debt funded

capex plan. The profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.44 times (Prov.) and 9.34 times (Prov.), respectively.

Acuité believes the financial risk profile will be impacted over the medium term due to pressure on operating performance amidst the ongoing COVID situation.

- **Efficient working capital management**

JSFMPL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 39 days (Prov.) in FY2020 as against 60 days in FY2019. The company has maintained an inventory holding period 20 days (Prov.) as on 31 March, 2020 as against 38 days as on 31 March, 2019. JSFMPL has extended a credit period of around 2 days (Prov.) in FY2020 to its customer as against 15 days in FY2019. As a result, the reliance on working capital limit is low, leading to low utilization of its bank line at an average of ~31.64 percent over the last 13 months through April 2020, while its peak utilization was high at around 70.10 percent during the same period which ensures that the company uses its own fund. Acuité expects the working capital management to remain efficient over the medium term on account of low inventory and limited credit period offered to its customer.

Weaknesses

- **Limited bargaining power with suppliers and exposures to intense competition**

JSFMPL faces competition from dealers of other original equipment manufacturers as the principle suppliers face competition from other OEMs. But JSFMPL being one of the oldest dealers for M&M and HML in the district it operates gets a benefit of it and was able to improve its operating income despite the entire auto industry being in the negative terrain. Sale of vehicles is subjected to change in the consumer tastes, popularity of the OEMs and the intensity of competition with other dealers. JSFMPL's business risk profile will be constrained over the medium term due to limited bargaining power with suppliers and intense competition in the automotive dealership market because of the Covid-19 impact. Further, the rating is constrained by the inherent cyclical in the automobile sector and subdued outlook for the same. Acuité expects that the growth prospect of JSFMPL is entirely dependent on the overall growth of M&M and HML.

Liquidity Position: Healthy

The company has a healthy liquidity marked by moderate net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.5.79crore (Prov.) in FY2020 as against no maturing debt obligations during the same period. The cash accrual of the company is estimated to remain around Rs.5.21crore to Rs.6.26crore during 2021-23 against no repayment obligations during the same period. The company's working capital operation is efficient marked by the gross current asset (GCA) days of 39 days (Prov.) for FY2020 as against 60 days in FY2019. The average bank limit utilization stood at 31.64 per cent for thirteen months ended April, 2020. The company maintains unencumbered cash and bank balances of Rs.7.99crore as on 31 March 2020. The current ratio stands at 2.09 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to no debt repayments over the medium term due to Covid-19.

Rating Sensitivities

Scaling up of operation while improving the profitability margin

Material Covenants

None

Outlook: Negative

Acuité believes that the outlook on JSFMPL will remain 'Negative' over the medium term due to the ongoing COVID situation and its impact on the automobile industry and pressure on the business risk profile of the company. The rating may be downgraded in case of sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable', in case of improvement in the outlook of automobile industry and business risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	310.10	290.89
PAT	Rs. Cr.	4.82	6.73
PAT Margin	(%)	1.55	2.31
Total Debt/Tangible Net Worth	Times	0.27	0.51
PBDIT/Interest	Times	9.34	11.60

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

CRISIL, vide its press release dated June 17, 2020 has denoted the rating of JS Fourwheel Motors Private Limited as 'CRISIL BB+/Stable; ISSUER NOT-COOPERATING; Withdrawn' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Apr-2019	Cash Credit	Long Term	17.00	ACUITE A- / Stable

*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- / Negative (Reaffirmed and Outlook Revised)

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About Acuité Ratings & Research:

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