

Press Release

Mahalaxmi Automotives Vehicles Private Limited

January 06, 2020



Rating Downgraded and Assigned

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.20.00 crore |
| Long Term Rating | ACUITE B/ Outlook: Stable (Downgraded from ACUITE B+/ Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B**' (**read as ACUITE B**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.20.00 crore bank facilities of Mahalaxmi Automotives Vehicles Private Limited (MAVPL). The outlook is '**Stable**'.

The rating has been downgraded on account of significant decline in the operating income and operational profit, resulting in the deterioration of debt protection metrics. The operating income declined to Rs.97.65 crore as on March 31, 2019 as against Rs.124.68 crore in FY2018 with an EBITDA of Rs. 5.45 crore and Rs. 5.67 crore, respectively. This has resulted in the significant deterioration of the financial risk profile, marked by Interest Coverage Ratio (ICR) of 1.51 times for FY2019 as against 1.97 times in the previous year, Debt Service Coverage Ratio of 1.02 times for FY2019 as against 1.26 times in the previous year and Debt to EBITDA of 6.47 times for FY2019 as against 5.56 times in the previous year. Acuité believes, any further deterioration in financial risk profile will impinge a negative bias towards the rating.

Incorporated in the year 2016, Mahalaxmi Automotives Vehicles Private Limited (MAVPL) is based of Pune, Maharashtra. The company is headed by Mr. Sadashiv Satav and his family. The company is an authorized dealer for Maruti Suzuki India Limited (MSIL) - Nexa Division. MAVPL has two showrooms in Pune and Baramati.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Mahalaxmi Automotives Vehicles Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

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

MAVPL is managed by Mr. Sadashiv Satav and his family members, who have an experience of more than two decades in the automobile industry. Further having an operational track record of operations of more than two decades has enabled the company to have strong presence in the market. The same has also helped the company in establishing healthy relationships with its customers and suppliers.

Acuité believes that MAVPL will benefit from the extensive experience of the promoters in the industry and established association with MSIL.

Weaknesses

- **Significant decline in operating income and profit**

The operating income of the company has declined to Rs.97.65 crore in FY2019 from Rs.124.68 crore in FY2018 resulting in decline in EBITDA from Rs.5.67 crore to Rs.5.45 crore. Further, the PAT has declined to Rs.0.05 crore in FY2019 from Rs.0.24 crore in FY2018.

- **Deterioration in financial risk Profile**

The financial risk profile of the company has deteriorated which is marked by low net worth, moderate debt protection measures and high gearing. The net worth of the company is low, even after infusion of Rs. 1.89 crore in the FY2019, totaling to Rs.4.34 crore as on 31st March 2019 as against Rs.2.40 crore as on 31st March 2018. Gearing of the company stands improved yet high at 8.57 times as on 31 March, 2019 as against 13.26 times as on 31 March, 2018. The total debt of the company stood at Rs.37.16 crore as on 31 March, 2019, consisting long term debt of Rs.11.62 crore, unsecured loans of Rs.1.26 crore and working capital borrowings of Rs.18.49 crore. Interest coverage ratio (ICR) stood at 1.51 times in FY2019 as against 1.97 times in FY2018. DSCR stood at 1.02 times in FY2019 as against 1.26 times in FY2018. Debt to EBITDA deteriorated to 6.47 times in FY2019 as against 5.56 times in FY2018. TOL/TNW stood at 8.83 times as on 31 March, 2019 as against 14.06 times as on 31 March, 2018.

- **Highly fragmented and competitive nature of the industry**

The rating continues to reflect the highly competitive and fragmented nature of the automotive industry. Consequently, MAVPL's profit margin declined at 0.05 percent in FY2019 as compared to 0.19 per cent in FY2018. As there is a slowdown in the automobile industry, most of the companies in the industry are struggling to sustain their revenues.

Rating sensitivity factor

- Further deterioration in working capital requirement.
- Improvement in operating income and financial risk profile.

Material Covenants

None

Liquidity position: Poor

The company has poor liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.90 crore in FY2019 as against repayment of Rs.5.80 crore for the same period. The cash accruals of the company is estimated to remain in the range of Rs.2.59 crore to Rs.3.95 crore during 2020-22 against repayment obligations ranging from Rs.5.16 crore to Rs.1.30 crore during the same period. The company's working capital operations are efficient, in spite of a significant increase in the gross current asset (GCA) days to 82 days in FY2019 as against 49 days in FY2018. The company maintained unencumbered cash and bank balances of Rs.0.90 crore as on 31 March 2019. The current ratio stands at 0.90 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain poor over the medium term on account of weak net cash accrual to debt repayments over the medium term.

Outlook: Stable

Acuité believes that Mahalaxmi Automotives Vehicles Private Limited will continue to benefit over the medium term due to its long track record of operations, experienced management and established relations with its customers. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|------------------|------------------|
| Operating Income | Rs. Cr. | 97.65 | 124.68 |
| PAT | Rs. Cr. | 0.05 | 0.24 |
| PAT Margin | (%) | 0.05 | 0.19 |
| Total Debt/Tangible Net Worth | Times | 8.57 | 13.26 |
| PBDIT/Interest | Times | 1.51 | 1.97 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Trading Sector - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to previous three years)

| Date | Name of the instrument/facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|-----------------------------------|-----------|------------------|------------------------------|
| May 31, 2019 | Inventory Funding | Long term | 15.00 | ACUITE B+/ Stable (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------------------------|------------------|----------------|----------------|-----------------------------|-------------------------------|
| Inventory Funding | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE B/ Stable (Downgraded) |
| Electronic Dealer Finance Scheme | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE B/ Stable (Assigned) |

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About Acuité Ratings & Research:

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