

Press Release

Vijay Automobiles

August 23, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.14.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.14.00 crore bank facilities of VIJAY AUTOMOBILES (VA). The outlook is '**Stable**'.

Alwar-based, Vijay Automobiles was established in 1972 by the Late Mr. Jagdhish Prasad Agarwal and Mr. Vijay Agarwal. Mr. Vijay Agarwal is still associated with the firm. The firm is engaged in the trading of automobile ancillary parts of commercial vehicles in Alwar, Jaipur, Kota, and Bikaner areas of Rajasthan. Vijay Automobiles is an authorised dealer of Tata Motors Automobile ancillary parts and currently, it has acquired a new business from Tata Motors for the supply of vehicles on road spare parts.

Analytical Approach

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

Key Rating Drivers

Strengths

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

The partners of VA, Mr. Vijay Agarwal, Mr. Sunil Agarwal and Mrs. Radha Agarwal have an extensive experience of over two decades in the automobile industry. Further, having more than four decades of operational track record has enabled the firm to maintain healthy relations with its customers and Tata Motors Limited, who is their only supplier. The extensive experience of the promoters is also reflected through its healthy revenue growth rate. The revenues of the firm have grown at a compounded annual growth rate (CAGR) of ~24.80 per cent to Rs.216.02 crore over the last three years through FY2019. Acuité believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit VA over the medium term.

- **Efficient working capital management**

VP's working capital cycle is efficiently managed as is reflected by Gross Current Asset (GCA) of 92 days in FY2019 (Provisional) as compared to 68 days in FY2018. This is on account of debtors' collection period of 44 days and inventory holding period of 30 days. Further, the credit payback period for FY2019 (Provisional) stood at 1 days. The current ratio of the firm stood moderate at 2.12 times as on 31 March, 2019 (Provisional).

- **Average financial risk profile**

The financial risk profile of the firm remained above average marked by above average net worth, debt protection metrics and coverage indicators. The net worth of Vijay Automobiles stood at Rs.19.82 crore for FY2019 (Provisional) as against Rs. 9.51 crore as on 31 March, 2018. The gearing (debt-equity) stood at 1.83 times in FY2019 (Provisional) as against 2.35 times as on 31 March, 2018. The total debt of Rs. 9.23 crore as on 31 March, 2018 mainly comprises Rs. 7.21 crore of secured loan and Rs. 2.02 crore of unsecured loans. The coverage indicators are above average marked by Interest Coverage Ratio (ICR) which stood at 3.46 times for FY2018 as against 4.29 times for FY2017. Acuité believes that the financial risk profile of the firm is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Acuité believes that the financial risk profile of the firm is expected to remain moderate backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Competitive and fragmented Industry**

Vijay Automobiles operates in a highly competitive and fragmented market with limited entry barriers. This results in the presence of large number of players in the unorganised sector, thereby limiting the bargaining power with the customers. Further, the automobile sector in India is going through a phase of de-growth market conditions. The growth in demand for automobiles is slowing down. Hence, in order to increase sales amidst the highly competitive Indian automobile sector, automobile dealers are likely to thin down their margins.

Liquidity Position:

The firm has adequate liquidity marked by healthy net cash accruals against no maturing debt obligations. VA generated cash accruals of Rs.7.32 crore in FY2019 (Provisional) against no debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.8.87 crore to Rs.12.59 crore during FY2020-22 against no repayment obligations for the same period. The firm's working capital operations are efficient marked by gross current asset (GCA) days of 92 days in FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.09 crore as on 31 March, 2019 (Provisional). The current ratio stands at 2.12 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes VA will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and its efficient working capital management. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	216.02	170.62	138.69
EBITDA	Rs. Cr.	12.95	10.28	6.15
PAT	Rs. Cr.	7.16	4.79	3.12
EBITDA Margin	(%)	5.99	6.03	4.43
PAT Margin	(%)	3.31	2.81	2.25
ROCE	(%)	29.05	34.88	22.27
Total Debt/Tangible Net Worth	Times	1.83	2.35	5.35
PBDIT/Interest	Times	4.15	4.05	2.10
Total Debt/PBDIT	Times	2.80	2.18	3.61
Gross Current Assets (Days)	Days	92	68	78

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

CRISIL, vide its press release dated July 24, 2019 had denoted the rating of Vijay Automobiles as 'CRISIL BB/Stable (ISSUER NOT COOPERATING; Rating Migrated)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to 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	14.00	ACUITE BB+ / Stable (Assigned)

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About Acuité Ratings & Research:

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