

Press Release

The Star Cars Private Limited

November 04, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.14.00 Cr.
Long Term Rating	ACUITE B / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs.14.00 crore bank facilities of THE STAR CARS PRIVATE LIMITED (TSPL). The outlook is 'Stable'.

The Star Cars Private Limited, incorporated in the year 2011 is engaged in the authorized dealership of Volkswagen passenger cars. The Company is situated in Pondicherry and also has another retail showroom at Cuddalore, Tamil Nadu. The Company is promoted by Mrs. Wahitha Shahjahan and managed by Mrs. D. Zeenath and Mr. Feroze Hasan.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience of promoters**

TSPL was incorporated in 2011 as an authorized dealer of Volkswagen passenger cars. The promoter, Mrs. Wahitha Shahjahan has been associated with the automobile industry for more than two decades. She has been seasoned with her family business specialized in automobile franchises of cars, scooters, motorcycles and other allied products. The company is managed by Mrs. D. Zeenath and Mr. Feroze Hasan. The senior management is ably supported by an experienced set of secondary management personnel who have an experience of several years in this industry. Acuité believes that TSPL will benefit from its seasoned management and established association with Volkswagen Group.

Weakness

- **Weak financial risk profile**

The financial risk profile is weak marked by high gearing (debt to equity), total outside liabilities total net-worth (TOL/TNW), debt protection metrics and modest net-worth. The gearing, although improved, stood high at 4.93 times as on March 31, 2019 (Provisional) against 9.19 times as on March 31, 2018. TOL/TNW is also high at about 5.01 times as at FY2019 (Provisional) compared to 9.87 times as at FY2018. The net worth stood modest at Rs.1.92 crore as on March 31, 2019 (Provisional) as against Rs.1.07 crores as on March 31, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are modest at 1.83 times and 0.04 times respectively in FY2019 (Provisional). Net cash accruals for FY2019 (Provisional) stood at Rs.0.43 crore to which the company has nil debt obligation. Further, the company's cash accruals are expected to be in the range of Rs.0.45-0.65 crore with repayment obligations amounting to Rs.0.50-0.55 crore, for the period of FY2019-2021, thereby leaving moderate cushion. Acuité believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve further over the medium term.

- **Working capital intensive operations**

Operations are working capital intensive with high gross current assets (GCA) days of about 202 days in FY2019 (Provisional), against 177 days in FY2018 which is due to high inventory holding period of 111 days in FY2019 (Provisional) against 56 days in FY2018. This accumulation of inventory was due to cyclone effect in Cuddalore coupled with the overall sectoral slowdown. The company sells to end customers and offers credit period of around 40-50 days to its customers. Acuité believes that efficient working capital management will be crucial to the company for maintaining a stable credit profile.

• **Exposure to inherent turbulence in the automobile industry**

The ratings remain constrained due to the overall sector witnessing a slump and the inherent turbulence and subdued outlook for passenger cars.

Rating Sensitivities

- Declining revenues with unstable margins owing to slowdown in the automobile sector
- Any stretch in liquidity owing to stretch in working capital operations and lower than expected cash accruals.

Material Covenants

None

Liquidity Position: Stretched

Liquidity profile of the Company is stretched reflected by high gross current assets (GCA) days of 202 days in FY2019 (Provisional). The Company has reported cash accruals of Rs.0.43 crore against nil repayment obligations; it is expected to generate cash accruals in the range of Rs.0.45-0.60 crore over the medium term, against which its repayment obligations are about Rs.0.50-0.55 crore which gives inadequate cushion for the incremental working capital requirements and the liquidity. The Company has cash and bank balances of Rs.0.35 crore as on March 31, 2019 (Provisional). Acuité believes that the liquidity profile will continue to be stretched marked by tightly matching accruals against repayment obligations.

Outlook: Stable

Acuité believes that TSPL will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the dealership business. The outlook may be revised to 'Positive' if the revenues improve with growth in its profitability along with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18(Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	16.24	20.46	25.07
EBITDA	Rs. Cr.	0.28	0.22	0.45
PAT	Rs. Cr.	0.28	0.33	0.77
EBITDA Margin	(%)	1.70	1.09	1.80
PAT Margin	(%)	1.73	1.61	3.09
ROCE	(%)	8.99	14.54	32.74
Total Debt/Tangible Net Worth	Times	4.93	9.19	13.15
PBDIT/Interest	Times	1.83	1.39	1.97
Total Debt/PBDIT	Times	8.30	5.81	5.23
Gross Current Assets (Days)	Days	202	177	160

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Service Entities – <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

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

Rating History

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
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research:

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