

Press Release

Sahu Refrigeration Industries Limited

July 28, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.55.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.55.00 crore bank facilities of Sahu Refrigeration Industries Limited (SRIL). The outlook is '**Stable**'.

About the rated entity

Sahu Refrigeration Industries Limited (SRIL) is a Delhi based company incorporated in 1970 by Mr. Suresh Kumar Mittal and Mrs. Kum Kum Rani Mittal for setting up of cold storage. However, the company was acquired by NCR based Lohia Group. The company was initially involved in steel furnace factory work and trading of steel pipes. The company, subsequently entered into automobile dealership business exclusively for KIA Motors in August 2019. Currently, SRIL has two showrooms (in addition to 1 showroom in WIP) and one service center.

About the group Company

SRIL is part of NCR based Lohia Group which is engaged in metal business for last 30 years. The group comprises of 6 companies (including SRIL). The other companies under the group are involved in manufacturing and trading of steel pipes.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SRIL to arrive at the rating

Key Rating Drivers

Strengths

• Experienced and resourceful management

The overall operations of the company are monitored by Mr. Rajiv Lohia, chairman of Lohia Group. He is closely involved in day to day operations of 'LohiaKIA'. The long standing experience of promoters has resulted in company receiving the dealership of KIA Motors. Mr. Sandeep Kumar Gupta (Director) and Mr. Navrun Lohia (Director) is involved in monitoring internal controls and financial activities of SRIL. The management have further infused funds in the form of equity in order to support growing scale of operations.

Acuité believes that the company will continue to benefit from the promoters' experience.

• Satisfactory financial performance

The company had commenced its business operations in August 2019. Hence, FY21 is first full year of operations under dealership business for KIA Motors. The company reported total operating revenue of Rs.284.16 crore in FY21 (Provisional) (Rs. 169.04 crore for 6 months' operation from August 2019). This is on account of higher number of cars sold and cars serviced in FY21. Apart from these, the company also provides other services such as accessories for car, insurance, assistance in financing of vehicles. The company reported PBILDT of Rs.8.38 crore in FY21 (Prov.). The PAT level remained at Rs.3.58 crore in FY21. The EBITDA margin was at 2.95% in FY21 (Prov.). The PAT margin also remained at 1.26% in FY21 (Prov.).

• Comfortable financial risk profile

The financial risk profile of the company remains at comfortable level with debt-equity ratio, below unity as on March 31, 2021 (Prov.). The debt profile of the company comprises of Working Capital Term Loan (WCTL) which the company had availed for complementing the growing scale of operations. Moreover, there have been infusion of funds in the form of equity in past two years, which has resulted in strengthening of tangible net worth of the company from Rs.7.79 crore in FY20 to Rs.16.39 crore in FY21 (Prov.). The interest coverage ratio remained at 3.42 times during FY21 (Prov.). The TOL/TNW remained at 1.68 times as on March 31, 2021 (Prov.).

The company has not planned any debt funded capex in medium term, thus, going ahead, the financial risk profile is expected to improve with repayment of term loan and accretion of profit to reserve.

• **Satisfactory working capital management**

The working capital management of the company remains at satisfactory level with GCA days of 38 days in FY21 (Prov.) and inventory days of 14 days in FY21 (Prov.). The inventory period is majorly w.r.t to arrival of the vehicle in showroom to its delivery to customer. The receivable and payables period remained at 6 days and 7 days respectively in FY21 (Prov.). The overall working capital period remained at lower level at 19 days in FY21.

Weaknesses

• **Thin profitability margins led by intense competition**

As the company is in dealership business, it faces stiff competition from market leaders of industry with companies launching new models at competitive price. Further, SRIL also faces competition from other dealers of KIA Motors. Consequently, the profitability margins remained at 2.95%. Acuite believes, that company's ability to improve its margins from service segments and through sale of automobile ancillaries would be key factor.

• **Susceptibility to cyclical nature in auto sector**

The operations of the company are vulnerable to the inherent cyclical nature of the automobile industry.

Rating Sensitivities

- Improving revenue and profitability margins.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

The company reported Net Cash Accruals of the Rs.4.98 crore in FY21 against debt repayment obligation of Rs.1.01 crore. The NCA for projected period is expected to be at Rs.7.0 crore to Rs.15.0 crore. The liquidity is comfortable, as it provides adequate cushion against the debt repayment of Rs.1.01 crore for FY22. Further, the current ratio remained at 1.34 times as on March 31, 2021 against 1.03 times as on March 31, 2020. The average utilization of working capital for 12 months ending May 2021 remained moderate at around 52%. The cash and bank balance remained at Rs.1.81 crore as on March 31, 2021. Further, albeit, the company has projected increase in gross block to the tune of Rs.2.0 crore, the same is expected to be funded through internal accruals.

Outlook: Stable

Acuite believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its arrangement with KIA Motors and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	284.16	169.04
PAT	Rs. Cr.	3.58	1.14
PAT Margin	(%)	1.26	0.67
Total Debt/Tangible Net Worth	Times	0.84	3.89
PBDIT/Interest	Times	3.42	4.08

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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)- 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
Working Capital Term Loan	August 2020	7.40%	July 2023	4.95	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Assigned)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	49.00	ACUITE BBB-/Stable (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BBB-/Stable (Assigned)

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About Acuite Ratings & Research:

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