

## Press Release

AAA Vehicleades Private Limited

April 03, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	107.68	ACUITE BB   Stable   Assigned	-
Bank Loan Ratings	17.00	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	124.68	-	-

## Rating Rationale

ACUITE has assigned the **long-term rating of 'ACUITE BB' (read as ACUITE double B)** and the **short-term rating of 'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.124.68 Cr bank facilities of AAA Vehicleades Private Limited (AVPL). The outlook is **'Stable'**.

### Rating rationale

The rating takes into account the established relationship with Maruti Suzuki India Limited and extensive experience of the promoters in the vehicle dealership industry. The rating also factors in average financial risk profile marked by moderate debt protection metrics and sound business risk profile. The adequate liquidity position of the company also provides support to the rating. However, the rating remains constrained by working capital intensive nature of operations, and susceptibility of operating margin to volatile nature of the industry.

### About the Company

AAA Vehicleades Private Limited (AVPL) was incorporated in 2008 by Mr Devender Rana and Mrs Gunjan Rana. It is an exclusive dealer for all passenger cars of Maruti Suzuki India Limited (MSIL) in New Delhi. The company is engaged in the sale of passenger vehicles, servicing of vehicles, sale of spare parts and sale of pre-owned cars, through its 7 showrooms/workshops across Delhi region.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of AVPL while arriving at the rating.

### Key Rating Drivers

#### Strengths

**Long track record of operations, experienced management and established distribution network in New Delhi**

AVPL has over a decade of operational track record in the auto dealership industry. Further,

the promoters, Mr. Devender Singh Rana and Mrs. Gunjan Rana has an experience of around three decades in the industry through their association with the Vehicleleads Group. The extensive experience of the management has helped the company establish long-term relations with the Maruti Suzuki India Limited (MSIL). Acuite believes that the long operational track record of AVPL and promoters' extensive understanding and expertise will benefit the company going forward, resulting in steady growth in the scale of operations.

AVPL is the authorized dealer of MSIL's passenger cars with a wide distribution network of over 7 showrooms and service stations to strengthen its market position in New Delhi. Acuite believes that the stronghold on the market and established relationship with MSIL, will help the company sustain its business risk profile going forward.

### **Average financial risk profile**

The average financial risk profile of the company is marked by modest net worth, high gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.45.36 Cr as on March 31, 2022 from Rs.40.62 Cr as on March 31, 2021 due to accretion of profits. Acuite has considered unsecured loans of Rs.24.02 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company stood high at 2.10 times as on 31st March, 2022 as compared to 2.70 times in March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.74 times as on March 31, 2022 as compared to 3.12 times on March 31, 2021. The moderate debt protection metrics is marked by Interest Coverage Ratio at 1.51 times and Debt Service Coverage Ratio at 1.20 times as on March 31, 2022 as against 1.48 times and 1.22 times respectively as on March 31, 2021. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31st March 2022 as against 0.05 times in the March 31, 2021. Acuite believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

### **Moderate business risk profile**

The revenue of the company has increased to Rs.220.01 Cr as on March 31, 2022 as against Rs.174.30 Cr in the March 31, 2021 due to increase in both sale volume and average realisations. Further, the company has reported a revenue of Rs.210.78 Cr for 10MFY23 (Prov) and is expected to achieve a turnover of ~Rs.240.00Cr in FY2023 on the back of increased sales volume and average realization in the current year as well. Going forward, Acuite believes, the revenue of the company will sustain at the healthy level backed by increasing demand for passenger vehicles. The operating margin of the company declined to 9.41 per cent in FY2022 as against 11.89 per cent in the March 31, 2021, due to increase in the material cost. However, the company has reported an operating margin of 9.40 per cent for 10MFY23. The PAT margin moderated to 2.15 per cent in FY2022 as against 2.48 times in FY2021. Acuite believes that the revenues derived from the higher margin segments including workshop income, sale of spares and accessories shall support the profitability to an extent.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked high Gross Current Assets (GCA) of 199 days in FY2022 as compared to 246 days in FY2021. The high GCA days are mainly on account of high debtor and inventory period. The debtor period improved but stood high at 121 days as on March 31, 2022 as against 144 days in the March 31, 2021, as around 25-35 per cent of total sales is made to institutions against delivery order received from banks, the payment for which is received by the company subsequently. Further, the debtor days are high also on account of receivable from insurance companies in workshops. Moreover, though the inventory days have improved, it still stood high at 91 days as on March 31, 2022 as against 132 days in the previous year as the company has to maintain inventory of all the models of cars for display at various showrooms. Further, the transit time for cars to reach the showroom from MSIL's factory is ~30 days. However, the company receives ~30 days of credit from Maruti Suzuki India Limited. Acuite believes that the working capital operations of the company will remain at same level as evident from the high collection period and moderate inventory level over the medium term.

### **Exposure to competition in automotive dealership segment**

The company's operations are dependent on Maruti Suzuki India Limited. Though, AVPL is an exclusive dealer of Maruti Suzuki India Limited's entire range of passenger vehicles (PVs) in New Delhi, this does not prevent Maruti Suzuki India Limited from appointing any new dealer in the region. Automotive manufacturers normally encourage multiple dealers in the same area to improve market penetration. Moreover, manufacturers face competition in their respective segments, and tend to squeeze margins of dealers to reduce cost. The consumer demand for passenger vehicles for near future will depend on the pace of macro-economic activity in the country.

### Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.
- Further elongation of working capital cycle.

### Material covenants

None.

### Liquidity Position

#### Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.6.01 Cr as on March 31, 2022 against long term debt repayment of Rs.2.71 Cr over the same period. Further, the fund based limit remained utilised at 79.41 per cent for the six months ended January 2023. Moreover, the current ratio stood moderate at 1.18 times as on March 31, 2022 as against 1.30 times in the previous year. The company has an unencumbered cash and bank balance of only Rs.0.68 Cr. However, the company's working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 199 days in FY2022 as compared to 246 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

### Outlook: Stable

Acuité believes that AVPL will continue to benefit over the medium term from its experienced management and established association with MSIL. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements or further elongation of working capital cycle.

### Other Factors affecting Rating

None.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	220.01	174.30
PAT	Rs. Cr.	4.74	4.32
PAT Margin	(%)	2.15	2.48
Total Debt/Tangible Net Worth	Times	2.10	2.70
PBDIT/Interest	Times	1.51	1.48

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

CARE, vide its press release dated November 24, 2022 had denoted the rating of AAA Vehicleads Private Limited as 'CARE D; ISSUER NOT COOPERATING'.

### Any other information

None.

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
J&K Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A4+   Assigned
J&K Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	74.00	ACUITE BB   Stable   Assigned
J&K Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	29.68	ACUITE BB   Stable   Assigned
J&K Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.00	ACUITE BB   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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