



Press Release
HEM AUTOWINGS PRIVATE LIMITED
October 14, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	23.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating to ‘**ACUITÉ BB-**’ (read as **ACUITE double B Minus**) on the Rs. 23.00 Cr. bank facilities of Hem Autowings Private Limited (HAPL). The outlook is ‘**Stable**’.

Rational for rating

The rating assigned considers the established track record of operations and moderately improving operating performance of HAPL. The revenue of the company increased and stood at Rs. 69.82 Cr. in FY24 (Prov.) as compared to revenue of Rs. 58.38 Cr. in FY23 and Rs. 49.64 Cr, reflecting a YoY growth of 19.60 per cent and 17.61 per cent respectively due to increase in sales volume. However, HAPL’s below average financial risk profile marked by low net worth, below average gearing and average debt protection metrics constrain the rating. The rating also factors in the intensive working capital operations and stretched liquidity position of the company as seen by high GCA days and almost full utilization of the fund-based bank limit for last 6 months ended July 2024.

About the Company

Incorporated in 2016, Maharashtra based Hem Autowings Private Limited (HAPL) is engaged in trading and servicing of two-wheeler. HAPL is an Authorized Dealer of Honda Motorcycle & Scooter India Private Limited at Satara, Maharashtra and is also a dealer in Mumbai for premium motorcycle business. The current directors of the company are Mr. Ishan Bipin Shah and Mr. Vinodrai Kalidas Shah.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Hem Autowings Private Limited

Key Rating Drivers

Strengths

Established track record of operation

Hem Autowings Private Limited is a part of the HEM Group, which was founded in 1912. HEM group has acquired various dealerships over the years including TVS motors co., Tata motors, etc. The current directors of HAPL are Mr. Ishan Bipin Shah and Mr. Vinodrai Kalidas Shah. In addition to extensive experience in petroleum industry of 62 years, Mr. Vinodrai Kalidas Shah has been managing automobile business for the past 41 years and Mr. Ishan Bipin Shah is having experience of 14 years in the same industry acquiring various dealerships over the years.

Increase in sales volume albeit moderation in profitability margins

The revenue of the company increased and stood at Rs. 69.82 Cr. in FY24 (Prov.) as compared to revenue of Rs. 58.38 Cr. in FY23 and Rs. 49.64 Cr. in FY22, reflecting a YoY growth of 19.60 per cent and 17.61 per cent respectively due to increase in sales volume. The operating profit remained at similar level at Rs. 3.52 Cr. in

FY24(Prov.) as against Rs. 3.90 Cr. in FY23 and Rs. 2.74 Cr. in FY22. Further, the operating margin decreased to 5.04 per cent as against 6.69 per cent in FY23 and 5.52 per cent in FY22. The decrease in operating margins is majorly driven by increase in vehicle pricing due to the regulations for OBD II compatible vehicles, which stands for On-Board Diagnostics version 2, became a compulsory system for all new two-wheelers sold in India starting in April 2023. The PAT decreased to Rs. 0.84 Cr. in FY24(Prov.) as against Rs. 1.11 Cr. in FY23 and Rs. 1.00 Cr. in FY22. Further, The PAT Margin of the company decreased and stood at 1.20 per cent in FY24(Prov.) as compared to 1.91 per cent in FY23 and 2.01 per cent in FY22.

Weaknesses

Below Average Financial Risk Profile

HEM Autowings has a below average financial risk profile marked by low net worth, below average gearing and average debt protection metrics. The net worth of the company increased moderately and stood at Rs. 7.63 Cr. in FY24(Prov.) as against Rs. 6.79 Cr in FY23 due to accretion of reserves. The total debt of the company stood at Rs. 24.63 crore as on 31 March 2024 (Prov.) as against Rs. 24.32 Cr. in FY23. The total debt comprises of long-term debt of Rs. 3.85 Cr, unsecured loans from directors/ promoters of Rs. 3.82 Cr. and short-term debt of Rs. 16.97 crore as on 31 March 2024 (Prov.). The gearing levels of the company stood at 3.23 times as on 31 March 2024 (Prov.) as against 3.58 times as on 31 March 2023. The interest coverage ratio of the company stood at 1.71 times in FY24(Prov.) against 1.93 times in FY23 and DSCR stood at 1.12 times in FY2024 (Prov.) against 1.74 times in FY2023. Acuite believes that the company's financial risk profile will remain below average in near to medium term.

Intensive Working capital operations

HEM Autowings has intensive working capital operations with gross current asset (GCA) days standing at 145 days on 31st March 2024 (Prov.) as against 168 days on 31st March 2023. The GCA days is mainly driven by high inventory levels of the company. The inventory days stood at 104 days in FY24(Prov.) as against 96 days in FY23. The debtor days stood at 39 days in FY24(Prov.) as against 68 days in FY23. The creditor days of the firm stood at 2 days in FY24(Prov.) as against 1 day in FY23. Acuite believes that the working capital operations of the company may continue to remain at similar levels going forward considering the nature of operations.

Highly competitive industry with price controlled by OEMs

The companies in this dealership industry have limited operating and profitability margins as prices are controlled majorly by OEMs, depending on the volumes sold by the dealers. The fate of the companies in the industry is extremely dependent on the performance of the OEMs and their market share in the industry. The Automobile industry is very much cyclical in nature and faces a stiff competition from rivals on pricing and features. Any increases in prices by the OEMs can affect the business performance of the dealers. Honda Motorcycle & Scooter India Pvt. Ltd. (HMSI) is a 100% subsidiary of Honda Motor Company, Japan, and is one of the leading players in the Indian two-wheeler market. HMSI is key supplier for the company thus company's bargaining power with supplier is limited however risk is partially offset by long standing relationship.

Rating Sensitivities

- Improvement in scale of operations while maintaining profitability margins.
- Deterioration in financial risk profile and working capital management leading to stretched liquidity.

Liquidity Position Stretched

HAPL liquidity position is stretched, marked by almost continuous full utilization of average fund-based bank limit for last 6 months ended July 2024. The company has sufficient net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs. 1.33 Cr. as on 31st March 2024 (Prov.). The cash and bank balance of the company stood at Rs. 1.26 Cr. as on 31st March 2024 (Prov.). The current ratio stood at similar levels of 1.49 times in FY24 (Prov.) as against 1.51 times in FY23.

Outlook: Stable

Acuité believes the outlook on HAPL will continue to remain 'Stable' over the medium term backed by its long track record of operations and experience of the management in the dealership business. The outlook may be revised to 'Positive' if the company is able to significantly improve the scale of operations, while also improving its working capital operations and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of lower than expected sales and profitability or further stretch in working capital cycle of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	69.82	58.38
PAT	Rs. Cr.	0.84	1.11
PAT Margin	(%)	1.20	1.91
Total Debt/Tangible Net Worth	Times	3.23	3.58
PBDIT/Interest	Times	1.71	1.93

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	16.00	Simple	ACUITE BB- Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	6.18	Simple	ACUITE BB- Stable Assigned
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Term Loan	18 Aug 2021	Not avl. / Not appl.	17 Aug 2028	0.80	Simple	ACUITE BB- Stable Assigned
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Term Loan	18 Aug 2021	Not avl. / Not appl.	17 Aug 2025	0.02	Simple	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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