

April 29, 2013

Facility	Amount (Rs. Crore)	Rating
Cash Credit (Sub Limit – Book Debts)	5.00 (1.75)	SMERA B+ / Stable / Assigned

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA Single B plus**) to Rs. 5.00 crores long term facilities. The outlook is 'Stable'. The rating of Sealand Diesel Private Limited (SDPL) is primarily constrained by limited management experience in automobile dealership business, non – compliance with AS – 6 (Depreciation Accounting), below average financial profile marked by low profitability, high working capital intensive nature of operations and moderate coverage indicators. The rating also factors in the prevailing recessionary trend in the automobile industry. The rating, however, derives support from the recent association of SDPL with Ashok Leyland as their dealer for light commercial vehicle, management experience of around 39 years in dealership of Cummins Generators and company's presence in the state of Gujarat (Saurashtra) and in entire Goa as a sole dealer of Ashok Leyland Limited.

Company forayed into dealership of light commercial vehicles for Ashok Leyland in October 2011. Hitherto, company was into the authorized dealership of Cummins generators for sales and services. SDPL surrendered its Cummins generator dealership in April 2011 and began its dealership for Ashok Leyland; during this period (April to Oct 2011), SDPL was primarily into trading of Cummins generator spare parts and repairs and maintenance work for the same, due to which it registered a decline of 9.29% in sales FY 2012 over FY 2011. However, shift in product mix from being an authorized dealer of Cummins generators to authorized dealer of Ashok Leyland's light commercial vehicle benefited the company in scaling up its operations which is evident from its current year's performance, where the company has achieved vehicles sales of Rs. 42.02 crores for the period April 2012 to February 2013, as against Rs. 24.10 crores in FY 2012.

Ashok Leyland Limited is the 2nd largest manufacturer of commercial vehicles in India and "Dost", the recent product of Ashok Leyland Limited, has shown significant growth in sales in light commercial vehicles segment since its launch in June 2011, by garnering 20% market share in this segment.

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SDPL is the sole dealer of “Dost” for the whole of Saurashtra (Rajkot, Junagadh, Bhavnagar, Porbandar, Jamnagar, Amreli, Surendranagar, and some portions of Ahmedabad District) under the tradestyle “Shubh Motors” and entire Goa under the tradestyle “Miracle Motors”. The company is highly dependent on automobile industry which is currently undergoing a recessionary period. Currently around 90% of SDPL’s revenue is generated through sale of vehicles followed by trading business and repairs and maintenance services.

In Feb 2013, SDPL diversified their business operations by entering into authorized dealership of Kirloskar Brothers Limited for sales and service of its various products i.e. Pump, Pump sets, Valves for Gas, Oil and Defence sector.

SDPL had not complied with accounting standard 6(depreciation accounting policy) in FY 2012, thus inflating profits to that extent for FY 12. Debt – equity ratio is moderately high and stands at 1.51 times as on 31/Mar/2012; the gearing is likely to deteriorate further to 2.46 times in FY 2013 as SDPL has availed working capital limit of Rs. 6.25 crores from Reliance Capital Limited post March 2012. Company has moderate coverage indicators with interest coverage ratio standing at 1.80 times and debt service coverage ratio standing at 1.63 times in FY 2012.

Mr. Alex Louis is the Chairman and Director of SDPL and has around 40 years of dealership experience of Cummins India Limited for sale & servicing of its generators. Mr. Alex Louis is supported by his son, Mr. Ashish Alex, who is also in this business for over 20 years and currently looks after the entire operations of SDPL. Though the management possess extensive experience in repairs and maintenance services and other allied activities, they have limited experience in the automobile dealership.

Management is yet to establish itself in the automobile dealership business, which is characterized by low margin and high intensity of working capital.

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Outlook: Stable

SDPL has 'Stable' outlook. SMERA believes that SDPL will scale up its operations in the near term on account of shift in its revenue mix. However, the company's ability to maintain its profitability, improve the capital structure and effective management of working capital are the key rating sensitivities.

About Sealand Diesel Private Limited

Sealand Diesel Private Limited (SDPL) was established in the year 1972 as a proprietorship concern by Mr. Alex Louis. Later, in the year 1983, it was reconstituted as Private Limited Company with Mr. Alex Louis and Mrs. Mary Eskil Alex as its Directors.

At present, management of SDPL is vested in the hands of Mr. Alex Louis, Mrs. Mary Eskil Alex, Mr. Ashish Alex, Ms. Priya Alex and Ms. Nishi Alex.

For FY 2012, SDPL reported a net profit of Rs. 0.54 crores on a total income of Rs. 25.98 crores, as against a net profit of Rs. 0.80 crores on a total income of Rs. 28.64 crores for FY 2011.

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