

October 04th, 2013

Facilities / Instruments	Amount (Rs. Crores)	Rating
Inventory Funding	2.00	SMERA B+/Stable/Assigned
Inventory Funding (proposed)	7.00	SMERA B+/Stable/Assigned
Total	9.00	

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA Single B Plus**) to the Rs.9.00 crores bank facilities of Veeteejay Motors Private Limited (VMPL). The outlook is '**Stable**'. The rating is constrained by the company's short track record of operations and weak financial risk profile marked by low net worth, high leverage and weak debt protection metrics. The rating also factors in the management's limited experience and the intense competition prevalent in the auto dealership business and the inherent cyclicity associated with the automobile industry. However, the rating is supported by the company's satisfactory performance over the last few quarters.

VMPL, incorporated in March 2010 and operational since July 2011, is a Kerala-based authorized dealer of Hyundai Motor India Limited (HMIL). VMPL has a weak financial risk profile marked by low net worth of Rs.3.01 crores and high leverage of 5.18 times as on March 31, 2013. Moreover, the company has weak interest coverage ratio of 1.26 times and low net cash accruals-to-total debt ratio of 0.03 times for FY2012-13 (refers to financial year, April 01 to March 31). VMPL's promoter's have advanced interest-free unsecured loans worth Rs.5.90 crores (as on March 31, 2013) to support the company's initial operations. However, retention of the unsecured loans is the key rating sensitivity. VMPL has raised working capital loans from various banks and the company's total external debt stands at Rs.9.07 crores as on March 31, 2013.

VMPL's promoters have limited experience in the auto dealership business. However, the company has an experienced second line of management. The rating is also constrained by the intense competition prevalent in the car dealership business and the limited bargaining power of dealers with the automobile manufacturers. VMPL is also vulnerable to the inherent cyclicity associated with the automobile industry, which is currently facing a slowdown.

VMPL's rating is supported by the company's satisfactory performance over the last few quarters. The company's sales volumes increased from 548 units in FY2011-12 (refers to financial year, April 01 to March 31) to 1,003 units in FY2012-13. Moreover, the company sold 257 vehicles in April 2013 to July 2013 as compared with 241 vehicles sold for the corresponding period of the previous year.

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Rating Sensitivity Factors

- Increase in scale of operations amidst recent slowdown in the passenger vehicle segment
- Improving profitability
- Sustained funding support by promoters
- Efficient working capital management

Outlook: Stable

SMERA believes that VMPL will benefit over the medium term from its association with HMIL, a leading player in the passenger vehicle segment. The outlook may be revised to 'Positive' if the VMPL achieves substantial increase in its scale of operations, while improving profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst prolonged slowdown in passenger vehicle segment or in case of further deterioration in the company's financial risk profile owing to higher-than-expected increase in working capital requirements.

About the company

VMPL was incorporated in March 2010 by Mr. Thomas J. Vayalat and his family members. VMPL is an authorized dealer of HMIL. VMPL began operations in July 2011 and is engaged in sale of new and used cars, servicing of vehicles, sale of spare parts and accessories. VMPL has two showrooms the Ernakulam district of Kerala.

In FY2012-13, VMPL reported PAT of Rs.0.15 crores on operating income of Rs.49.07 crores as compared with net loss of Rs.0.14 crores on operating income of Rs.24.97 crores in FY2011-12. In the first four months of FY2013-14, VMPL reported operating income of Rs.14.67 crores as compared with operating income of Rs.13.11 crores in the corresponding period of the previous year. The company's net worth stands at Rs.3.01 crores as on March 31, 2013 as compared with Rs.0.85 crore a year earlier.

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