

October 04th, 2013

Facilities / Instruments	Amount (Rs. Crores)	Rating
Cash Credit	5.00	SMERA BB-/Stable/Assigned

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA Double B Minus**) to the Rs.5.00 crores bank facilities of Kothari Wheels (KW). The outlook is '**Stable**'. The rating is constrained by the firm's small scale of operations and below-average financial risk profile marked by low net worth, high outside liabilities-to-tangible net worth ratio and low profitability margins. The rating also factors in 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 firm's long track record of operations and experienced management.

KW, established as a partnership firm in 2001, is a Pune-based authorized dealer of Honda Motorcycle & Scooter India Private Limited (HMSI). KW has a relatively small scale of operations with total operating income of Rs.42.60 crores in FY2012-13 (refers to financial year, April 01 to March 31) and tangible net worth of Rs.1.55 crores as on March 31, 2013. KW sold 2,329 units from April 2013 to July 2013 as compared with 2,548 units for the corresponding period a year earlier. The firm's total outside liabilities-to-tangible net worth ratio stands at 3.78 times as on March 31, 2013 as compared with 6.66 times a year earlier. KW has low profitability with net profit margin at 0.87 per cent in FY2012-13. The firm's rating is also constrained by the intense competition prevalent in the auto dealership business and the limited bargaining power of dealers over automobile manufacturers. KW is also vulnerable to the inherent cyclicity associated with the automobile industry, which is currently facing a slowdown.

KW's rating is supported by the firm's long association with HMSI, a leading player in the two-wheeler vehicle segment. KW has two showrooms in Pune, Maharashtra. KW's partners, Mr. Rupesh Kothari and Mr. Vishal Kothari, have over a decade of experience in the auto dealership business. The partners also have a Maruti dealership (The Kothari Wheels) in Pune since 2005.

Rating Sensitivity Factors

- Increase in scale of operations amidst recent slowdown in the automobile industry
- Higher profitability
- Sustained funding support by promoters
- Efficient working capital management

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Outlook: Stable

SMERA believes that KW will benefit over the medium term from its experienced management and established association with HMSI. The outlook may be revised to 'Positive' if KW achieves a substantial increase in its scale of operations while improving profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve revenue scalability amidst a prolonged slowdown in automobile industry or in case of a deterioration in the firm's financial risk profile owing to higher-than-expected increase in working capital requirements.

About the firm

KW is a partnership firm established in 2001 by Mr. Rupesh Kothari and Mr. Vishal Kothari. KW is an authorized dealer of Honda Motorcycle & Scooter India Private Limited (HMSI). KW is engaged in the sale of new vehicles, servicing of vehicles, sale of spare parts and accessories. The firm has two showrooms in Pune, Maharashtra.

In FY2012-13 (provisional), KW reported PAT of Rs.0.37 crores on operating income of Rs.42.60 crores as compared with PAT of Rs.0.36 crores on operating income of Rs.45.20 crores in FY2011-12. In the first four months of FY2013-14, KW reported operating income of Rs.12.39 crores as compared with operating income of Rs.12.81 crores in the corresponding period of the previous year. The firm's net worth stands at Rs.1.55 crores as on March 31, 2013 as compared with Rs.1.29 crores a year earlier.

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