



SMERA RATINGS LIMITED

Kothari Wheels (KW)

Rating
RationaleAugust 24, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	6.60	SMERA BB-/Stable (Suspension Revoked; Rating Assigned)

SMERA has revoked the suspension of rating assigned to Kothari Wheels (KW). The suspension was done on December 29, 2014 in the absence of requisite information for the surveillance process. However, the firm has now shared the required information with SMERA. Subsequently, SMERA has assigned a rating of '**SMERA BB-' (read as SMERA double B minus)**' to the bank facilities of Rs.6.60 crore. The outlook is '**Stable**'.

The rating is supported by the firm's long track record of operations, established relationship with Honda Motorcycle & Scooter India and experienced management. However, the rating is constrained by the firm's small scale of operations and below-average financial risk profile. The rating also factors in the intense competition prevalent in the auto dealership business and inherent cyclicity associated with the automobile industry.

KW, established as a partnership firm in 2001, is a Pune-based authorized dealer of Honda Motorcycle & Scooter India (HMSI). KW has a long association with HMSI (a leading player in the two-wheeler vehicle segment). KW has three showrooms in Pune, Maharashtra. The partners of the firm, Mr. Rupesh Kothari and Mr. Vijaykant Kothari, have over a decade of experience in the auto dealership business.

KW has a relatively small scale of operations with total operating income of Rs.46.21 crore (provisional) in FY2014-15 (refers to financial year, April 01 to March 31). In FY2014-15, KW sold 8665 vehicles vis-à-vis 9333 vehicles in the previous year.

KW's financial risk profile is marked by low net worth of Rs.1.96 crore and high leverage of 2.59 times as on March 31, 2014. The firm has low profitability with operating profit margin at 3.52 per cent in FY2013-14. However, the firm's interest coverage and return on capital employed (ROCE) is comfortable at 2.96 times and 26.82 per cent respectively in FY2013-14.

KW's rating is also constrained by the intense competition prevalent in the auto dealership business. Moreover, the firm's business is also vulnerable to the inherent cyclicity associated with the automobile industry.

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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 projected revenue and profits 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 his family members. KW is an authorized dealer of Honda Motorcycle & Scooter India (HMSI). KW is engaged in the sale of new vehicles, servicing of vehicles, sale of spare parts and accessories. The firm has three showrooms in Pune, Maharashtra.

For FY2013-14, KW reported profit after tax (PAT) of Rs.0.57 crore on operating income of Rs.48.29 crore, as compared with profit before tax (PBT) of Rs.0.32 crore on operating income of Rs.42.77 crore in the previous year. For FY2014-15, KW reported operating income of Rs.46.21 crore (provisional). The firm's net worth stood at Rs.1.96 crore as on March 31, 2014, as compared with Rs.1.46 crore a year earlier.

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