

Kothari Wheels: Reaffirmed

Facility	Amount (Rs Crore)	Rating/Outlook
Cash Credit	6.60	SMERA BB-/Stable (Reaffirmed)

SMERA has reaffirmed the long term rating of **'SMERA BB-' (read as SMERA double B minus)** on the above mentioned bank facility of Kothari Wheels (KW). The outlook is **'Stable'**.

The rating derives comfort from the established track record of operations and experienced management, established relationship with Honda Motorcycle & Scooter India (HMSI) and average financial risk profile. However, the rating is constrained by the modest scale of operations and exposure to intense competition in the auto industry.

Update

KW, established as a partnership firm in 2001, is a Pune-based authorised dealer of Honda Motorcycle and Scooter India (HMSI). The firm 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 decades experience in the auto dealership business.

KW has average financial risk profile marked by average networth of Rs.6.02 crore as on 31 March 2016 as compared to Rs.3.26 crore as on 31 March 2015. The firm's debt to equity ratio stood at 1.17 times as on 31 March, 2016 as compared to 1.59 times as on 31 March, 2015. Further, for FY2015-16 the interest coverage ratio stood at 1.45 times as compared to 2.25 times for FY2014-15.

KW has moderate scale of operations marked by operating income of Rs.41.45 crore in FY2015-16 as against Rs.45.81 crore in FY2014-15. The firm has been managing its working capital cycle efficiently at 63 days. The creditor days stood at 5 and receivable days at 2 in FY2016. The rating is also constrained by the intense competition in the auto dealership business. Moreover, the firm's business is also vulnerable to the inherent cyclicity in the automobile industry.

Rating Sensitivity Factors

- Increase in scale of operations and improving operating profit margins
- Regular infusion of funds by promoters to support the operations
- Efficient working capital management

Outlook-Stable

SMERA believes that the firm will maintain a stable outlook and continue to benefit over the medium term from the promoter's experience in the dealership business and relationship with HMSI in Pune. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially, while improving its operating profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

KW is a partnership firm established in 2001 by Mr. Rupesh Kothari and family. The firm is an authorised dealer of HMSI. It also provides servicing and deals in spare parts and accessories through its three showrooms in Pune, Maharashtra.

For FY2015-16, the firm registered Profit after tax (PAT) of Rs.0.41 crore on operating income of Rs.41.45 crore as against PAT of Rs.0.65 crore on operating income of Rs.45.81 crore in FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
24 Aug, 2015	Cash Credit	6.60	SMERA BB- (Suspension Revoked, Rating Assigned)	-	Stable
29 Dec, 2014	Cash Credit	5.00	SMERA BB- (Suspended)	-	Stable
04 Oct, 2013	Cash Credit	5.00	SMERA BB- (Assigned)		Stable

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ABOUT SMERA

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