

July 31, 2013

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	3.00	SMERA B/ Stable/ Assigned
Letter of Credit	3.50	SMERA A4/ Assigned

SMERA has assigned ratings of '**SMERA B**' (read as **SMERA B**) to Rs.3.00 crores long term facility and '**SMERA A4**' (read as **SMERA A four**) to Rs.3.50 crores short term facility of Auto Kashyap India Private Limited (AKIPL). The outlook is '**Stable**'. The ratings are primarily constrained by AKIPL's limited operational track record under the current dealership (of Volvo Auto India), moderate scale of operations and below average financial profile characterized by stretched liquidity, high leverage, low profitability and loans extended to employees and group entities. The ratings also factor in the high competition prevalent in the luxury car segment with established brands like Audi, Mercedes-Benz and BMW and unfavourable taxation policies on luxury cars. The ratings however derive support from the promoters' experience in the automobile dealership business, prime location of the showroom and the recent increase in Volvo's market share in the Indian luxury car segment.

AKIPL is an authorized dealer for Volvo in Delhi/NCR. The dealership started in February 2009. AKIPL's scale of operations is moderate with FY2011-12 (refers to financial year, April 01 to March 31) revenues at Rs.22.87 crores. The company's operations are working capital intensive with major funds being blocked in inventory, thereby resulting in a stretched working capital cycle of around 55 days in FY2011-12 and high working capital utilization of over 90 per cent during the period October 2012 to March 2013. AKIPL has high leverage with total debt-to-equity ratio and total liabilities to tangible networth ratio at 2.08 times and 7.34 times respectively as on March 31, 2012. A major portion of the debt is applied towards the working capital requirement. Company has extended loans and advances to its employees and group entities (with such loans and advances accounting for ~70 per cent of the company's tangible net worth as on March 31, 2012). AKIPL operates at low profitability margins and the OPBDIT margins have also declined.

The Indian luxury car segment is characterized by intense competition with the presence of several established luxury brands including Audi, Mercedes-Benz and BMW. Although Volvo is a relatively late entrant in the segment, its market share has been improving over the recent years. The Indian government imposes heavy taxes on luxury cars. High customs duty (ranging from 75 per cent to 100 per cent) is levied on all imported passenger cars. All Volvo cars sold in India are presently imported.

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Volvo has low visibility in the Indian luxury car segment with a market share of less than 5 per cent during FY 2011-12. Sales through AKIPL accounted for nearly 11 per cent of Volvo's total cars sold in India during FY2011-12. Volvo's low market share limits the scalability of AKIPL's revenues.

AKIPL benefits from its promoters' experience in the automobile dealership business. The Kashyap Group, founded by Mr. Rajinder Kashyap, in 1986 as an authorised importer of BMW and is associated with several reputed international and luxury car brands.

AKIPL has booked revenues of ~Rs.35 crores (provisional) during FY2012-13.

Outlook: Stable

AKIPL has a 'Stable' outlook. SMERA believes that AKIPL will continue to benefit from the management's experience in the automobile dealership business. However, the company's ability to scale up its operations amidst intense competition while maintaining a comfortable liquidity position and improving the capital structure remains the key rating sensitivity.

About the Company

AKIPL was incorporated in 1994 by Mr. Rajinder Kashyap, Mr. Anand Kashyap and Mr. Amarjit Singh Aluwalia. AKIPL started as an authorized dealer for Peugeot India and following Peugeot India's bankruptcy in 1998, AKIPL discontinued its operations and remained dormant from 1999 to 2007. AKIPL restarted its operations in April 2007 by establishing a service centre for multi brand vehicles. In February 2009, Volvo India appointed AKIPL as its authorized dealer. AKIPL also provides car repairs and other maintenance services at its workshop.

As on date, the Kashyap Group comprises AKIPL, Kashyap Motors Private Limited and Kashyap Vehicles Works Private Limited. Volvo is the key brand for the Kashyap Group.

The promoters and their team have the relevant experience in automobile dealership business.

For FY2011-12, AKIPL reported PAT of Rs.0.15 crores (Rs.0.10 crores in FY2010-11) on total operating income of Rs.22.87 crores (Rs.16.65 crores in FY2010-11).

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