

October 26, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	6.50	SMERA B+ /Stable (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA Single B Plus**) to the Rs.6.50 crore bank facility of LRN Motors (LRNM). The outlook is '**Stable**'. The rating is constrained by the firm's small scale of operations, weak profitability, low net worth and high leverage. The rating is further constrained by 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 experienced management and established association with Hero Moto Corp Limited.

LRNM, established as a proprietorship concern in 2004, is a Salem-based authorized dealer of Hero Moto Corp Limited (HML). LRNM has a relatively modest scale of operations net sales of Rs.30.85 crore (provisional) in FY2012-13 (refers to financial year, April 01 to March 31). The firm's net profit margin is low at 1.26 per cent in FY2012-13. LRNM has a weak financial profile as reflected in a low net worth of Rs.2.4 crore and high leverage at 3 times as on March 31, 2013. The firm is also exposed to intense competition prevalent in the auto dealership business and the inherent cyclicity associated with the automobile industry, which is currently facing a slowdown. The cyclicity has resulted in low sales growth for LRN motors for FY 2012-13 (5.8 per cent).

LRNM's rating is supported by the firm's long-standing association with HML, a leading player in the two-wheeler vehicle segment. LRNM has a showroom in Salem, Tamil Nadu and six sub-dealers in Tamil Nadu. Mr. S. Sundaresan, Proprietor of LRNM, has around ten years of experience in the auto dealership business.

Outlook: Stable

SMERA believes LRNM will continue to benefit over the medium term from its experienced management and established association with HML. The outlook may be revised to 'Positive' if the firm registers a substantial increase in its scale of operations along with better profit margins and strong net worth. Conversely, the outlook may be revised to 'Negative' in case the firm fails to expand its scale of operations or in case of deterioration in the firm's profitability, debt protection metrics or stretched working capital

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About the firm

LRNM, established in 2004, is a proprietorship concern promoted by Mr. S. Sundaresan. LRNM is an authorized dealer of Hero Moto Corp Limited. The firm is engaged in the sale of new two-wheeler vehicles, servicing of vehicles and sale of two-wheeler spare parts and accessories. LRNM has a showroom in Salem, Tamil Nadu and six sub-dealers in Tamil Nadu. The firm sells about 600 bikes per month and services about 2,500 vehicles each month.

For FY2011-12, LRNM reported PAT of Rs.0.42 crore on net sales of Rs.29.90 crore as compared with PAT of Rs.0.14 crore on operating income of Rs. 24.79 crore for FY2010-11. For FY2012-13, the firm reported PAT of Rs.0.40 crore on net sales of Rs.30.85 crore. LRNM's net worth stands at Rs.2.4 crore (provisional) as on March 31, 2013 as compared with Rs.1.71 crore a year earlier.

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