

Press Release

BRD Car World Limited

March 23, 2019



Rating Downgraded, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 47.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Downgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 43.86 crore bank facilities of BRD Car World Limited (BCWL). The outlook is '**Stable**'.

Further, Acuité has assigned short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 3.14 crore bank facilities of BCWL.

Also, Acuité has withdrawn long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 1.92 crore bank facilities of BCWL.

The rating downgrade is on account of steep decline in revenues and profitability for FY2019. The company has booked net loss of Rs.2.41 crore (Provisional) for the period under study from April, 2018 to January, 2019. Also, its revenues were volatile and declined from Rs.381.83 crore in FY2018 to Rs.266.73 crore (Provisional) from April, 2018 to January, 2019. The ratings are constrained by declining revenues and highly competitive and fragmented industry. However, the ratings factor in the experienced management and long track record of operations.

BCWL, incorporated in 2008, is a Kerala-based authorised dealer for Maruti Suzuki India Limited (MSIL). The company, promoted by Mr. C. C. William Verghese and Mr. C. C. Simon is currently led by Mr. C. C. William Verghese, Mr. C. C. Simon and Mr. Jijin .C. Surendran. BCWL undertakes sale of new cars, pre-owned vehicles (under Maruti True Value), spare parts, accessories and servicing of vehicles. The company also has a NEXA showroom which caters to the mid - premium segment and operates a driving school (Maruti Driving School).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the BCWL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

BCWL is part of the BRD Group of Companies that has interests in chit funds, hire purchase, asset financing, vehicle sales and industrial training. The company benefits from its experienced management. The Directors have around four decades of experience in the automobile dealership business. Acuité believes that BCWL will continue to benefit from its experienced management and the synergies from being a part of a diverse group.

• Moderate financial risk profile with comfortable liquidity

The moderate financial risk profile is marked by tangible net worth of Rs.28.12 crore as on 31 March, 2018 as against Rs.27.28 crore as on 31 March, 2017. The gearing stood at 1.41 times as on 31 March, 2018 as against 1.17 times in the previous year. The total debt of Rs.39.57 crore as on 31 March, 2018 comprises majorly working capital loan of Rs.35.72 crore and term loan of Rs.3.86 crore. BCWL has comfortable interest coverage ratio of 2.40 times in FY2018 as against 3.38 times in FY2017. Going

forward, the gearing is expected to remain comfortable in the medium term in the absence of future external borrowing. The working capital cycle has remained comfortable at 23 days in FY2018 (25 days in FY2017). The company has been able to manage its working capital requirements with average utilisation at 92.55 per cent for the six months ended January 2019. Acuite believes that BCWL will sustain a moderate financial risk profile in the absence of debt funded capex plans.

Weaknesses

• Declining revenue trend and declining profitability

BCWL has booked revenues of Rs.381.83 crore in FY2018 compared to Rs.368.97 crore in FY2017. Further, in FY2019 (Provisional), the company has booked revenues of Rs.266.73 crore from April, 2018 to January, 2019. The decline in revenues was due to low realisation per unit as well as decline in number of units sold on account of natural calamity in Kerala. Sales volumes decreased to 4227 cars in FY2019 (10M) from 6187 cars in FY2018. Further, the company has registered net loss of Rs.2.41 crore for 10MFY2019.

• Stiff competition from other dealers and brands

MSIL's focus on expanding its dealership network is expected to increase competition among its own dealers. Furthermore, the company is also exposed to intense competition from other automobile companies such as Honda, Tata Motors, Hyundai and Chevrolet to name a few. Besides, launch of new models at competitive prices eats into the market share of MSIL, which in turn affects dealers including BCWL.

• Exposure to the inherent cyclical nature in the industry

The rating is constrained by the inherent cyclical nature in the automobile sector and subdued outlook for passenger cars. Moreover, the prospects of BCWL are linked to the overall growth of MSIL.

Liquidity Position:

BCWL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.4.16-6.56 crore during the last four years through 2015-18, while its maturing debt obligations were in the range of Rs.0.80-1.79 crore over the same period. The cash accruals of the company are estimated to remain around Rs.1.11-5.99 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.69-1.07 crore. The working capital cycle has remained comfortable at 23 days in FY2018 (25 days in FY2017). The company has efficiently managed its working capital requirements with average utilisation stood at 92.55 per cent for the six months ended January 2019. The company maintains unencumbered cash and bank balances of Rs.3.44 crore as on March 31, 2018. The current ratio of the group stood low at 0.81 times as on March 31, 2018. The company is not likely to incur capex over the medium term. Acuite believes that the liquidity of the group is likely to remain moderate over the medium term on account of moderate cash accrual and low repayments over the medium term.

Outlook: Stable

Acuite believes that BCWL will maintain a 'Stable' outlook over the medium term owing to its experienced management and established association with MSIL. The outlook may be revised to 'Positive' if the company registers strong growth in scale of operations while achieving improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenue or deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	381.83	368.97	296.57
EBITDA	Rs. Cr.	8.07	11.33	9.34
PAT	Rs. Cr.	0.84	3.07	1.66
EBITDA Margin	(%)	2.11	3.07	3.15
PAT Margin	(%)	0.22	0.83	0.56
ROCE	(%)	7.90	14.01	11.62
Total Debt/Tangible Net Worth	Times	1.41	1.17	1.52
PBDIT/Interest	Times	2.40	3.38	2.41

Total Debt/PBDIT	Times	4.72	2.71	3.71
Gross Current Assets (Days)	Days	46	43	63

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Dec-2017	Cash Credit	Long Term	33.00	ACUITE BBB / Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	4.08	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	0.34	ACUITE BBB / Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.58	ACUITE BBB / Stable (Assigned)
17-Aug-2017	Cash Credit	Long Term	33.00	ACUITE BBB / Stable (Upgraded)
31-Mar-2016	Cash Credit	Long Term	33.00	ACUITE BBB- / Stable (Upgraded)
04-Feb-2015	Cash Credit	Long Term	20.00	ACUITE BB+/ Stable (Upgraded)
20-Dec-2013	Inventory Funding	Long Term	10.00	ACUITE BB/ Stable (Assigned)
	Proposed Inventory Funding	Long Term	10.00	ACUITE BB/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB- / Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.86	ACUITE BBB- / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.34	ACUITE BBB- (Withdrawn)

Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.14	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.58	ACUITE BBB- (Withdrawn)

Cash Credit of Rs.8.00 crore includes sublimit of Bank Guarantee to the extent of Rs.1.00 crore.

Contacts

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About Acuite Ratings & Research:

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