

Press Release

BRD Car World Limited

March 05, 2020



Rating Reaffirmed and Withdrawn

Total Bank Facilities Rated*	Rs. 47.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 47.00 crore bank facilities of BRD CAR WORLD LIMITED (BCWL). The outlook is '**Stable**'.

Also, Acuité has withdrawn the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 3.14 crore bank facilities,

BCWL is a Kerala-based authorised dealer for Maruti Suzuki India Limited (MSIL), incorporated in 2008. The company was promoted by Mr. C. C. William Verghese, Mr. C. C. Simon, and the Late Mr. K. C. Seemon. It is currently led by Mr. C. C. William Verghese, Mr. C. C. Simon and Mr. Jijin Chanayil 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

For arriving at the rating, Acuité has considered standalone financial and business risk profile of BCWL.

Key Rating Drivers

Strengths

• **Experienced management and established track record of operation**

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 directors have around four decades of experience in the automobile dealership business. The company benefits from its experienced management. 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**

The financial risk profile of the company has deteriorated on account decline in operating performance. However it remains moderate marked by moderate tangible networth of Rs. 26.05 crore as on 31 March 2019 as against Rs. 28.12 crore as on March 31, 2018. The gearing increased to 1.63 times as on 31 March, 2019 as against 1.41 times in the previous year. The total debt of Rs. 42.40 crore as on 31 March, 2019 comprises majorly working capital loan of Rs. 39.63 crore and term loan of Rs. 1.78 crore. BCWL has moderate interest coverage ratio of 1.13 times in FY2019 as against 2.40 times in FY2018. Going forward, the gearing is expected to remain comfortable in the medium term in the absence of future external borrowing and improvement in operating performance. The working capital cycle has remained comfortable at 31 days in FY2019 (23 days in FY2018). The company has managed its working capital requirements with average utilisation at ~62 per cent for the six months ended November 2019. Acuité believes that BCWL will sustain a moderate financial risk profile on the back of in the absence of debt funded capex plans and improving operating performance.

Weaknesses

• Declining revenue trend

BCWL has booked revenues of Rs. 319.44 crore in FY2019 compared to Rs. 381.83 crore in FY2018. Further, in FY2020, the company has booked revenues of ~Rs. 168 crore for FY2020 (8M). The decline in revenues was due to low realization per unit as well as decline in number of units sold on account of natural calamity in Kerala and overall slowdown in the automobile industry in India. Sales volumes decreased to 2905 cars in FY2020 (8M) from 5293 cars in FY2020. However the company has been able to improve its operating margins and it stands at ~3.45 percent in FY2020 (8M) against (0.51) percent in FY2019 (PY: 2.11 percent).

• Stiff competition from others dealers and brands

Maruti'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, Toyota to name a few. Besides, launch of new models at competitive prices eats into the market share of Maruti which in turn affects dealers including BCWL.

Liquidity Position: Adequate

BCWL's net cash accruals stood at Rs. 1.09 crore in FY2019 and Rs. 4.31 crore in FY2018. The repayment obligation during the same period stood in the range of Rs. 0.78-1.00 crore giving the company adequate cushion to meet its repayment obligations. The operations are moderately working capital intensive marked by GCA days of 87 in FY2019 and 46 days in FY2018. However, the bank limit utilization remains low at ~62 per cent for six month period ended November 2019 reflecting lower dependence of bank borrowing to fund its working capital requirement. Acuité believes that BCWL's liquidity is likely to remain adequate over the medium term on account of adequate cash accruals as against repayment obligations and lower dependence on bank borrowings.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	319.44	381.83
Profit after Tax (PAT)	Rs. Cr.	(2.07)	0.84
PAT Margin	(%)	(0.65)	0.22
Total Debt/Tangible Net Worth	Times	1.63	1.39
PBDIT/Interest	Times	1.13	2.40

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
23-Mar-2019	Cash Credit	Long Term	33.00	ACUITE BBB- /Stable (Downgraded)
	Cash Credit	Long Term	8.00	ACUITE BBB- /Stable (Downgraded)
	Term Loan	Long Term	2.86	ACUITE BBB- /Stable (Downgraded)
	Term Loan	Long Term	0.34	ACUITE BBB- (Withdrawn)
	Standby Line of Credit	Short Term	3.14	ACUITE A3 (Assigned)
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 Term Loan	Long Term	1.58	ACUITE BBB- /Stable (Downgraded)
17-Aug-2017	Cash Credit	Long Term	33.00	ACUITE BBB/Stable (Upgraded)

***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	25.00	ACUITE BBB-/ Stable (Reaffirmed)
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan	14-Dec-2016	Not Applicable	15-Dec-2021	2.01	ACUITE BBB-/ Stable (Reaffirmed)

Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.14	ACUITE A3 (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.99	ACUITE BBB-/Stable (Reaffirmed)

* Cash Credit has Rs. 1.00 crore sublimit of Bank Guarantee

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About Acuité Ratings & Research:

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