

**December 12, 2013**

Facilities	Amount (Rs. Crore)	Rating
Proposed Cash Credit	4.00	SMERA B-/Stable (Assigned)
Proposed Inventory Funding Limit	16.00	SMERA B-/Stable (Assigned)

SMERA has assigned a long-term rating of **'SMERA B-' (read as SMERA B Minus)** to the Rs.20.00 crore bank facilities of Vardhman Cars Private Limited (VCPL). The outlook is **'Stable'**. The rating is constrained by the company's short track record and small scale of operations, low profitability, high leverage and working capital-intensive operations. The rating is further constrained by the company's exposure to revenue concentration risk and intense competition prevalent in the automobile dealership business. However, the rating is supported by the company's experienced management.

VCPL, incorporated in 2010, is a Faridabad-based authorized dealer of Renault. VCPL commenced commercial operations in September 2012. The company has a small scale of operations with revenues of Rs.65.68 crore in FY2012-13 (refers to financial year, April 01 to March 31). Furthermore, VCPL's net profit margin is low at 0.09 per cent in FY2012-13. The company has high leverage at 5.52 times as on March 31, 2013. VCPL's operations are working capital-intensive owing to high inventory levels. The company's average utilisation of cash credit limit and inventory funding limit is 87 per cent during May 2013 to October 2013. VCPL availed an ad-hoc limit of Rs.2.00 crore during October 2013 – November 2013 to maintain higher inventory level for festive season.

VCPL is exposed to revenue concentration risk as it derives about 80 per cent of its total income from commission on sale of Renault Duster. VCPL faces intense competition from Renault's expanding dealership network and dealers of other automobile manufacturing companies.

VCPL benefits from its experienced management. Mr. Dinesh Kumar Jain, Director of VCPL has around two decades of experience (derived from group entities) in the automobile dealership business.

Outlook: Stable

SMERA believes VCPL will maintain its moderate business risk profile in the medium term on the back of its experienced management. The company is poised to benefit from Renault's new product launches. The outlook may be revised to 'Positive' in case VCPL achieves a significant improvement in its scale of operations, profitability, leverage and working capital management. Conversely, the

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outlook may be revised to 'Negative' in case of a further stretch in the company's working capital management or in case of deterioration in the company's capital structure.

About the company

VCPL, incorporated in 2010, is a Faridabad-based authorized dealer of Renault. VCPL commenced commercial operations in September 2012. The company has a showroom and a service station in Faridabad, Haryana.

VCPL is promoted by Mr. Dinesh Kumar Jain and Ms. Surbhi Jain.

For FY2012-13, VCPL reported PAT of Rs.0.06 crore on operating income of Rs.65.68 crore. The company's net worth stood at Rs.1.67 crore as on March 31, 2013.

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