

April 02, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	5.00	SMERA B+/Stable (Assigned)
Term Loan	1.15	SMERA B+/Stable (Assigned)
Bank Guarantee	0.60	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA B plus**) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.6.75 crore bank facilities of Vinayak Cars Private Limited (VCPL). The outlook is '**Stable**'. The ratings are constrained by the company's declining profit margins and below-average financial risk profile amidst intense competition prevalent in the automobile dealership business. The ratings are also constrained by the company's exposure to inherent cyclicity in the automobile industry. However, the rating derives comfort from the company's experienced management and established association with Skoda Auto India Private Limited.

VCPL, established in 2007, is a Bengaluru-based authorized dealer for Skoda Auto India Private Limited (SAIPL). VCPL is engaged in sale of new cars, spare parts and accessories. The company is also involved in servicing vehicles. VCPL's operating profit margin has declined from 3.51 per cent in FY2011-12 (refers to financial year, April 01 to March 31) to 2.72 per cent in FY2012-13.

The company's below-average financial risk profile is marked by high gearing (debt-to-equity ratio) of 4.18 times as on March 31, 2013. VCPL's net worth of Rs.3.58 crore (as on March 31, 2013) includes share application money of Rs.2.37 crore, which bears interest at the rate of 18 per cent per annum. The company's external borrowings mainly comprise working capital loans. VCPL's working capital-intensive operations are supported by inventory funding limit of Rs.12.00 crore (average utilisation being 85 per cent during July 2013 to December 2013) and cash credit facility of Rs.5.00 crore. The company's interest coverage ratio is at moderate at 1.84 times in FY2012-13. VCPL faces intense competition from dealers of leading automobile companies, including Hyundai, Toyota and Honda.

VCPL's operations are exposed to the inherent cyclicity in the automobile industry, which is currently undergoing a slowdown. The company sold 604 cars during April 2013 to December 2013, as compared with 829 cars sold during the corresponding period of the previous year.

VCPL benefits from its experienced management. Mr. Suresh Kumar Askaran, director of VCPL, has around two decades of experience in the auto dealership business. The company also benefits from its established association with SAIPL. VCPL is one of the two Skoda dealers in Bengaluru.

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SMERA RATINGS LIMITED

Vinayak Cars Private Limited (VCPL)

Rating Rationale

Outlook: Stable

SMERA believes that VCPL will continue to benefit over the medium term from its experienced management and established presence in Bengaluru. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in its scale of operations and profitability. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the company

VCPL, incorporated in 2007, is a Bengaluru-based authorized dealer for Skoda Auto India Private Limited. VCPL operates two showrooms and two service stations in Bengaluru. The company also has a stockyard (with stacking capacity of 152 cars) in K. R. Puram, Bengaluru.

For FY2012-13, VCPL reported PAT of Rs.0.55 crore on operating income of Rs.114.14 crore, as compared with PAT of Rs.0.38 crore on operating income of Rs.84.41 crore for FY2011-12. The company's net worth stood at Rs.3.58 crore as on March 31, 2013, as compared with Rs.3.03 crore a year earlier.

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