



SMERA RATINGS LIMITED

Archana Motors Private Limited (AMPL)

Rating Rationale

July 11, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit (e-DFS)	11.50	SMERA B/Stable (Assigned)
Adhoc Cash Credit (e-DFS)	3.45	SMERA B/Stable (Assigned)

SMERA has assigned a long-term rating of **'SMERA B' (read as SMERA single B)** to the abovementioned bank facilities of Archana Motors Private Limited (AMPL). The outlook is **'Stable'**. The rating is constrained by the company's short track record of operations amidst intense competition in the auto dealership business. The rating factors in risks related to the company's weak financial risk profile. The rating is also constrained by the company's exposure to cyclicity inherent in the automobile industry. However, the rating is supported by the company's experienced management.

AMPL, incorporated in August 2011, is a Kerala-based authorized dealer of commercial vehicles manufactured by Tata Motors Limited (TML). AMPL commenced commercial operations in April 2012. The company's weak financial risk profile is marked by low net worth of Rs.3.02 crore and high leverage (debt-equity ratio) of 4.31 times as on March 31, 2013. Moreover, AMPL's weak debt protection metrics are reflected in interest coverage ratio of 1.39 times and net cash accruals to total debt (NCA/TD) ratio of 0.03 times in FY2012-13 (refers to financial year, April 01 to March 31). The company faces intense competition from TML's expanding dealership network. AMPL also competes with dealers of various commercial vehicles manufacturers, including Mahindra, Bharat Benz and Ashok Leyland. AMPL is susceptible to the inherent cyclicity in the automobile industry.

AMPL benefits from its experienced management. The promoters of the company have around ten years of experience in the automobile dealership business. AMPL registered 27 per cent growth in car sales volumes in FY2013-14. However, the company's ability to achieve sustained growth in scale of operations without compromising on profitability and liquidity position is a key rating sensitivity.

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*Rating
Rationale*

Outlook: Stable

SMERA believes the outlook on AMPL's rated facilities will remain stable over the medium term. The outlook may be revised to 'Negative' in case of sharp decline in the company's profit margins, or in case of deterioration in the company's capital structure. The outlook may be revised to 'Positive' in case the company registers sustained improvement in profitability and financial risk profile.

About the company

AMPL, incorporated in August 2011, is a Kerala-based authorized dealer of commercial vehicles manufactured by TML. AMPL commenced commercial operations in April 2012. The overall operations of the company are currently managed by Mr. Shibu Job Cheeran, Mrs. Bency Shibu and Mr. M. I. George.

For FY2012-13, AMPL reported net profit of Rs.0.12 crore on operating income of Rs.98.39 crore. Further, the company reported net profit of Rs.0.26 crore (provisional) on total income of Rs.127.77 crore (provisional) in FY2013-14. AMPL's net worth stood at Rs.3.02 crore as on March 31, 2013.

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