Rating Rationale

15 Nov 2019

A2Z Autowheels Pvt Ltd

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs 28.00 Crs of A2Z Autowheels Pvt Ltd. (‘AAPL’ or ‘the company’)

Particulars:

Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Apr 2019)	Present
Fund based	24.83	28.00	Long Term	BWR BB/ Stable	BWR BB+/Stable Upgraded
Total	24.83	28.00	Rs Twenty Eight Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank Loan facilities are provided in Annexure-I

RATING ACTION / OUTLOOK

The upgradation of ratings has factored the consistent performance of the company and revenue growth, experience of the promoters in the auto industry and infusion of capital. The ratings, however, remain constrained by the moderate financial risk profile, highly competitive industry and slowdown in the auto industry.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that A2Z Autowheels Pvt Ltd’s business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if significant increase in revenue or profitability, improvement in capital structure and better working capital management strengthen the business risk and financial risk profiles of the company. The rating outlook may be revised to 'Negative' if the revenues and profits are lower than anticipated or any large, debt funded capital expenditure and/or any stretch in the working capital cycle weakens the financial risk profile.

KEY RATING DRIVERS

Credit Strengths:

- **Consistent Performance:** The company is an authorised car dealer of Mahindra and Mahindra Ltd and has three showrooms and workshops located in Muzaffarnagar, Shamli and Baraut. Revenue has been on an upward trend over the last four years. Despite the slowdown in the auto industry, revenue has increased marginally from Rs 82.31 Crs in FY18 to Rs 86.91 Crs in FY19.
- **Experience of the management:** The promoters are well experienced in the auto industry. Mr Vivek Kumar, Director, has over a decade of experience in the industry through other sister concerns. The experience of the promoters and their understanding of the dynamics of the industry will continue to support the business risk profile.
- **Capital Infusion**: The promoters have infused equity capital to the tune of Rs 1.71 Crs in FY19.

Credit Risks:

- **Financial Performance:** The company has a moderate financial risk profile marked by modest scale of operations, low net worth and high gearing. Total operating income increased from Rs 82.31 Crs in FY18 and Rs 86.91 Crs in FY19. On a provisional basis, the company has reported sales of around Rs 61 Crs in 5MFY20. Networth is low at Rs 8.23 Crs while gearing is high at 3.81 times as on 31 Mar 2019. Debt protection metrics are moderate with ISCR of 1.27 times and DSCR of 1.00 times in FY19.
- **Industry related risks:** The intensely competitive automobile dealership industry constrains bargaining power and puts pressure on profitability. Also, the operations of the company are exposed to cyclicity in the economy and slowdown in the auto industry.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The company's ability to increase its scale of operations, improve profitability, infuse capital and strengthen its overall credit profile would be the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations, profitability and liquidity
- Infusion of capital and strengthening of capital structure

Negative:

- Decline in scale of operations/profitability due to unfavourable market conditions
- Deterioration in gearing/debt coverage metrics

LIQUIDITY: STRETCHED - Working capital utilisation remained high with an average utilisation of around 95% over the last year. Current ratio was moderate at 1.78 times as on 31 Mar 2019. Net cash accrual/total debt was low at 0.03 times in FY19. ISCR was 1.27 times and DSCR was 1.00 times in FY19. Cash and cash equivalents were Rs 1.14 Crs as on 31 Mar 2019.

COMPANY PROFILE

A2Z Autowheels Pvt. Ltd. was incorporated on 12th August 2013 and started commercial operations on 8th June 2014. It is an authorized car dealer of Mahindra & Mahindra Ltd. It has three showrooms and workshops located in Muzaffarnagar, Shamli and Baraut. Mr Vivek Kumar and Mr Pankaj Veerbhan are the directors of the company.

KEY FINANCIAL INDICATORS

Key Financial Indicators	**Units**	**FY18**	**FY19**
Result Type		**Audited**	**Audited**
Operating Revenue	Rs Crs	82.31	86.91
EBITDA	Rs Crs	3.73	3.93
PAT	Rs Crs	0.41	1.08
Tangible Net Worth	Rs Crs	5.44	8.23
Total Debt/Tangible Net Worth	Times	4.84	3.81
Current Ratio	Times	1.50	1.78

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Facilities	Current Rating (Nov 2019)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	25Apr2019	22Oct2018	20Jul2017
Fund Based	Long Term	28.00	**BWR BB+/ Stable**	BWR BB/ Stable	Rating Not Reviewed	BWR BB/ Stable
Total		**28.00**	**Rs Twenty Eight Crores Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

Analytical Contacts	Investor and Media Relations
Anupama Muttur **Rating Analyst** Board: +91 80 4040 9940 anupama.m@brickworkratings.com **AP Kamath** **Senior Director – Ratings** Board: +91 80 4040 9940 apkamath@brickworkratings.com	**Liena Thakur** **Assistant Vice President - Corporate Communications** **+91 84339 94686** **liena.t@brickworkratings.com**

A2Z Autowheels Pvt Ltd

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Syndicate Bank	SODH	23.00	-	23.00
		Term Loan	1.73	-	1.73
		Proposed SODH	3.27	-	3.27
Total: Rupees Twenty Eight Crores Only					**28.00**

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