



Rating Rationale

Agrawal Tractors

05 Dec 2018

Brickwork Ratings assigns the rating for the Bank Loan Facilities of ₹. 5.00 Crores of Agrawal Tractors.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	5.00	Long Term	BWR B (Pronounced as Single B) Outlook: Stable
Total	5.00	INR Five Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has primarily relied upon the audited financials of FY17 & FY18 and projections of FY19 & FY20, and publicly available information and the information / clarification provided by the firm's management.

The rating draws strength from a long business experience (40 years) of one of the partners and key person in firm, Mr. Ravi Agarwal in the auto components industry. It also factors the good growth rate being witnessed by this industry on the back of high demand for both commercial and passenger vehicle segments. The rating also gives weightage to the firm's association with reputed brands i.e. Bosch and Ceat Tyres, both of whom are prominent players in their respective field.

However, the rating is constrained by the moderate scale of operations of the firm despite being in the business for over twenty five years, a sharp fall in sales of the firm in FY18 and low network.

Going forward, the concern's ability to increase its scale of operations, infuse more partner's fund into the business to boost its financial risk profile and manage its working capital efficiency will be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Highly experienced management:** Mr. Ravi Agarwal, who is the key person in the firm has over 40 years of experience in this industry.
- **Relationship with good brands:** The firm has tie ups with Bosch for spare parts supply and Ceat Tyres for Tyres & tubes supply. Both these companies enjoy good brand recognition.
- **A high growth industry:** The demand in the replacement market is directly proportional to the growth in the new vehicles sales and with the economy growing at a good pace, the automobile industry is also growing well.

Credit Risks:

- **Low networth of the firm:** The networth of the firm is low at Rs.2.43 Cr as compared to the total debt which exposes it to the risks of high financial leverage.
- **Highly fragmented industry:** The unorganized and highly fragmented nature of the replacement component market often leads to low demand of genuine component parts due to its high cost.
- **Declined Sales:** The Sales of the firm have declined sharply by 50% in FY 18 from Rs.21.55 Cr in FY17 to 10.74 Cr. which indicates stress in the operations of the firm owing to the changes in business environment like GST implementation.
- **Stretched conversion cycle:** The net conversion cycle of the firm is quite stretched at 306 days in FY 18 due to very high levels of receivables and declined levels of trade payables, which in turn puts pressure on liquidity.

Analytical Approach

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

Rating Outlook: Stable

BWR believes the **Agarwal Tractors** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Agarwal Tractors is a partnership firm which was established on 12/08/1992 and has its registered address at Station Road, Bahraich, Uttar Pradesh. There are two partners in the firm namely Mr. Ravi Agarwal and Mrs. Vidya Agarwal. The firm is into sales and distribution of automobile spare parts and tyres and tubes and operates through its five shops/showrooms.



The key person in the firm is Mr. Ravi Agarwal who looks after the day to day business and decision making in the firm. He has more than 40 years of business experience in this field.

The firm has two major suppliers : 1) Bosch Ltd (for spare parts and components) 2) Ceat Tyres (for tyres & tubes). It also deals in other related spare parts i.e. battery, lubricant oils and grease, led lights and fixtures etc.

Company Financial Performance

The firm's operating income had been consistently increasing in the year 2016 and 2017 but has fallen by 44% in FY 18. However the firm's operating margins have shown good improvement in FY 18 (8.47%) over the previous year(2.76%) by almost 200%. The net profit margin though improved in FY 18 by 41% but is still hovering around 0.24%. Overall gearing level is at moderate to high level at 2.68 times and ISCR at 1.22 in FY 18.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	12.28	21.94
EBITDA	₹ Cr	1.04	0.61
PAT	₹ Cr	0.03	0.04
Tangible Net worth	₹ Cr	2.43	2.06
TOL / Tangible Net worth	Times	2.68	4.36
Current Ratio	Times	1.88	1.52

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
I	Fund Based	Long Term	5.00	BWR B Outlook: Stable	NA	NA	NA
	Total		5.00	₹ Five Crores Only			

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



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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