Rating Rationale

Arise Automotives Pvt Ltd (AAPL)

11 July 2019

Brickwork Ratings revises the long term rating for the Bank Loan Facilities of Arise Automotives Pvt Ltd.

Particulars:

Issue	Previous Amount Rated (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	Previous Rating 16Apr18	Rating Assigned^
Fund Based					
Term Loan	2.00	0.07	Long Term	BWR B (Pronounced as BWR Single B) Outlook: Stable	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable Upgraded
Cash Credit	32.00	32.00			
Total	34.00	32.07	Rs.Thirty Two Crores and Seven Lakhs Only		

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

Rating: Upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The upgrade in rating of Arise Automotives Pvt Ltd ('AAPL' or 'The Company') has factored in improvement operating income, adequate business experience of the promoters in auto industry related business and its association with Hyundai and improved interest servicing ability of the company.

The rating, however, is constrained by susceptibility of business operations to geographic concentration risks, increasing competition which limits pricing flexibility, as the dealers have to pass on the price discounts to customers thereby impacting its profitability, and regulatory changes and cyclicality of the automotive dealership industry and of the passenger vehicle (PV) industry in particular and the performance of its principal.

Key Rating Sensitivities: BWR expects the company to continue to report increase its operating performance driven by healthy revenue growth and operating profitability. Further the rating of AAPL will remain sensitive to reduction in its scale of operations by more than 10% in a year and negative profit margins, loss booking by the company,current ratio continues to remain less than 1 and overall gearing higher than 10x would result in a downgrade of the rating assigned to the company.

Description of Key Rating Drivers

Credit Strengths

- **Experience of promoters and its association with Hyundai India -** The promoters of the company have experience of over one decade in the car dealership industry and its association with Hyundai India which enjoys a dominant position in the passenger car segment in India.

- **Increase in Scale of Operations and PAT :** The company has registered a Y-o-Y increase of 144.69% in FY18 vis-a-vis FY 17, the same stood at Rs.126.63Crs in FY18. Further , the company has registered Total Operating Income of Rs.140.43Crs in FY 19 (Provisional) owing to increase in the total number of vehicles sold by AAPL. Further, the increase in PAT is inline with the increase in total revenue of the company and the same stood at Rs.0.84Crs in FY18 vis-a-vis a loss of Rs.2.07Crs in FY17.

- **Improved Interest Servicing ability of AAPL:** The interest servicing ability of the company, viz. ISCR has improved to 1.77x in FY18 vis-a-vis 0.39x in FY17, owing to improved EBITDA of Rs.5.07Crs in FY18 against Rs.0.83Crs in FY17.

Key Rating Weaknesses

- **Low Tangible Net Worth :** The company has a relatively low tangible net worth of Rs.3.08Crs in FY18 coupled high a high overall -gearing as marked by TOL/TNW of 11.45x in FY18.

- **Geographic concentration risk:** The company is exposed to geographic concentration risks owing to its presence only in Kashmir Valley and competitive pressures from increase in number of dealers of Hyundai Motors India Limited (HMIL) as well as dealers of other OEMs which results in lower realization per vehicle for the company and limited bargaining power with principals due to its exposure to intense competition in the industry.

- **Vulnerability to performance of principal HMIL and the cyclicality of the domestic PV Industry-** While the company benefits from the improved demand scenario of PV industry and steady performance of its principal, such sizeable industry and principal concentration renders the business operations to the performance of HMIL and PV industry. Any reduction in market share of the OEM or decline in the demand scenario of domestic PV industry given the cyclicality of the automobile industry in India directly impacts the performance of the company.

Liquidity Risk (Average): The company has an average liquidity position cash and cash accruals of Rs.2.60Crs in FY 18. Further majority of its limits are the working capital limits for which it reports an average EBITDA levels for servicing its interest obligation every year.

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 **Arise Automotives Pvt Ltd's** 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

The Company has been incorporated on 23rd of August of 2013. The company has been founded by Mr. Sajad Ahmad Beigh, Mr. Omar Ismail Beigh and Mr. Tufail Ahmad Khan, with commercial operations commencing in the year 2013, and is an authorised dealers of Hyundai Cars. The Company is presently operating at Tengpora and having further showrooms at Batmaloo (Srinagar), Sangrama Sopore, Bumhama Kupwara & Handwara. All the showrooms are on rented premises.

Rating History for the last three years

Instrument /Facility	Current Rating in 2019			Rating History		
	Type	Amount (₹ Crs)	Rating	2018	2017	2016
Fund Based						
Term Loan	Long Term	0.07	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable Upgraded	BWR B (Pronounced as BWR Single B) Outlook: Stable	NA	NA
Cash Credit		32.00				
Total		**32.07**	**Rs. ThirtyTwo Crores and Seven lakhs Only**			

Status of non-cooperation with previous CRA :NA

<u>Key Financial Indicators</u>

Key Parameters	**Units**	**FY17**	**FY 18**
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	51.75	126.63
EBITDA	₹ Cr	0.83	5.07

PAT	₹ Cr	-2.07	0.84
Tangible Net worth	₹ Cr	1.23	3.08
TOL/TNW ratio	Times	23.98	11.45
Current Ratio	Times	0.86	0.88

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Trading Entity**

For any other criteria obtain hyperlinks from website

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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.

DISCLAIMER

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