Rating Rationale **03 July 2020**

Audi Motors Pvt Ltd

Brickwork Ratings assigns the ratings for the Bank Loan Facilities amounting to ₹ 125.24 Cr of Audi Motors Pvt Ltd ('AMPL' or 'The Company')

Facility**	Present Amount Rated (₹ Crs)	Tenure	Present Ratings
Fund Based	115.24	Long Term	**BWR BBB** Stable
Non Fund Based	10.00	Short Term	**BWR A3+**
Total	**125.24**	**INR One Hundred Twenty Five Crores & Twenty Four Lakhs Only**	

** Details of facilities given in Annexure I.
Please refer to ***www.brickworkratings.com*** for definition of the Ratings

Rating Action/Outlook:

BWR has assigned a long term rating of BWR BBB (Stable) & Short Term Rating of BWR A3+.

The rating factors in the experience of the promoters in automobile dealership business along with wide dealership network & company's established market position, long and established relationship with leading Original Equipment Manufacturer (OEM) i.e. Maruti Suzuki India Limited (MSIL), adequate debt protection metrics & comfortable scale of operations during FY19 and FY20 (Prov).

However, the rating is constrained by thin profitability margins, working capital intensive nature of operations and inherent competition associated within the automobile dealership industry.

The outlook is stable as the company has been able to sustain the revenues from business operations in FY20 (Prov).

Going forward, the company's ability to improve its scale of operations and profitability alongwith credit metrics & liquidity position will be the key rating sensitivities.

BWR has principally relied upon the audited financial results of AMPL upto 31st March 2019, FY20 certified provisionals and projected financials FY21, FY22 & publicly available information & information/ clarifications provided by the company's management.

Key Rating Strengths

- **Extensive experience of promoters in the automobile dealership industry**- Overall activities of AMPL are managed by the three directors with Mr Subhash Chandra Gahlot being the Chairman. Mr Subhash Chandra Gahlot has experience of more than 35 years in the automobile dealership business. He is ably supported by the other two directors namely; Mr Hiren Gahlot and Mr Abhijeet Gahlot who have experience of over a decade and seven years respectively in automobile dealership business as well as a qualified and well experienced management team.
- **Established market position with long standing association with its principal – MSIL:–** AMPL is engaged in the automobile dealership business and has a long standing association with its principal MSIL since 1995. AMPL currently operates 18 Arena & 4 Nexa showrooms equipped with 3S (Sales, service and spare parts) facilities across 7 districts of Rajasthan i.e. Jodhpur, Bikaner, Sri Ganganagar, Jhunjhunu, Churu, Nokha, Nohar and Hanumangarh. It also operates 4 true value (pre-owned car) outlets at Jhunjhunu, Bikaner, Jodhpur and Sri Ganganagar which are located within the existing showroom premises. Further it also operates 3 'Maruti Driving School' outlets at Jhunjhunu, Jodhpur and Bikaner.
- **Adequate coverage indicators & comfortable scale of operations:** Debt coverage indicators (ISCR & DSCR) stood at 1.80 times & 1.27 times in FY19. DSCR remained constant in FY20 (Prov) as compared to FY19. Gearing improved to 1.78x in FY20 (Prov) from 2.14x in FY19. TOI stood at INR 613.24 Crs in FY20 (Prov) as compared to INR 614.29 Crs in FY19. TOI has increased by 17.21% as compared to INR 523.20 Crs in FY18. TNW improved to INR 54.99 Crs in FY20 (Prov) from INR 46.63 Crs in FY19.

Credit weaknesses

- **Thin profitability margins inherent to dealership business :** The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. Operating profit margins declined to 3.30% in FY19 from 3.57% in FY18 on account of increase in Operating expenses. PAT margins also declined to 0.84% in FY19 from 1.31% in FY18. However in FY20 (Prov) the Operating Profit & PAT margins remained at same level of FY19 respectively. Margins are low due to stiff competition.

- **Working capital intensive nature of operations:** Inventory management is crucial for AMPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. AMPL receives inventory either against advances or on cash payments to its principal. The average utilisation of working capital limits stood moderate around 70% during the 12 month period ended June, 2020.

- **Intense competition and regional concentration of sales –** The company faces competition from dealers of other original equipment manufacturers (OEMs), along with dealers from the same principal resulting in increased pressure to pass on price discounts to customers. The sales are regionally concentrated with its revenue derived from seven districts across Rajasthan.

Analytical Approach
For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, in case of improved operating income & profitability margins, improved gearing and strengthening of the financial risk profile of the company.

Negative: BWR may revise the rating downward, in case reduction in profitability margins, debt protection metrics, substantial increase in debt levels thereby impacting the credit profile of the company. Also if there is more than 5%-10% variation in the audited results of FY20 it may result in downgrade of rating.

Liquidity Position (Adequate)

The company has an adequate liquidity position. There are long term borrowings from banks & Unsecured interest bearing loans from directors amounting to INR 19.17 Crs as on 31st March 2020. Against a CPLTD of INR 3.61 Crs in FY20, the company had a cash accruals of INR 7.58 Crs in FY20 (Prov), thereby indicating a comfortable liquidity position for repayment of debt obligations. Utilization of working capital limits is around 70%.

About AMPL:

AMPL was originally incorporated in 1989 and was later acquired by Mr Subhash Chandra Gahlot and his family members in 1995 to commence automobile dealership business. The company was awarded dealership of Maruti Suzuki India Limited (MSIL) for Bikaner, Rajasthan in 1995. Over the years, AMPL has grown in size by opening new outlets across Rajasthan and it currently owns 18 Arena & 4 Nexa showrooms equipped with 3S (Sales, service and spare parts) facilities at Nokha, Hanumangarh, Nohar, Suratgarh, Rajgarh, Sardarshahar, 2 at Jhunjhunu, 2 at Churu, 3 at Bikaner, 5 at Sri Ganganagar and Jodhpur. It also operates 4 true value (pre-owned car) outlets at Jhunjhunu, Bikaner, Jodhpur and Sri Ganganagar which are located within the existing showroom premises. Further it also operates 3 'Maruti Driving School' outlets at Jhunjhunu, Jodhpur and Bikaner. They have been awarded continuously for the past 11 years as Royal Platinum Dealers by MSIL.

Key Financial Indicators (Standalone)

Key Financials			
	Units	31/Mar/2018	31/Mar/2019
Result Type		Audited	Audited
Total Operating Income	INR Crs	523.20	614.29
OPBDIT	INR Crs	18.67	20.26
PAT	INR Crs	6.83	5.13
Tangible Net Worth	INR Crs	34.12	46.63
Debt/TNW	Times	2.31	2.14
Current Ratio	Times	1.05	0.96

Key Covenants of the Instrument/Facility Rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Name of Instrument	Current Rating (2020)				Rating History		
		Type	Tenure	Amount (In Crs)	Rating	2019	2018	2017
1	Bank Loan	Fund Based	Long Term	115.24	BWR BBB Stable	NA	NA	NA
		Non Fund Based	Short Term	10.00	BWR A3+	NA	NA	NA
Total				125.24	INR One Hundred Twenty Five Crores & Twenty Four Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria - Trading Entities**

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ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	SBI	CC	15.50	-	15.50
		Channel Financing	10.00	-	10.00
		TL-1	4.72	-	4.72
		TL-2	1.37	-	1.37
		LC	-	8.00	8.00
		BG	-	2.00	2.00
2	Indusind Bank	Channel Financing	10.00	-	10.00
		Channel Financing	3.00	-	3.00
3	Axis Bank	Channel Financing	7.00	-	7.00
		Channel Financing	8.00	-	8.00
4	Kotak Mahindra Bank	Channel Financing	2.00	-	2.00
		TL	13.65	-	13.65
5	Bank of Baroda	Channel Financing	10.00	-	10.00
6	ICICI Bank	Channel Financing	15.00	-	15.00
7	Tata Capital	Channel Financing	15.00	-	15.00
TOTAL					**125.24**

Total: INR One Hundred Twenty Five Crores & Twenty Four Lakhs Only

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