

**RATING RATIONALE**

16 Dec 2019

**Auto Carriage Pvt. Ltd.**

**Brickwork Ratings has reaffirmed the ratings for the existing amount of Long Term Bank Loan Facilities of ₹ 14.38 Crores and also for the Short Term facilities of ₹ 1.00 Crs (Sublimit) of Auto Carriage Pvt Ltd ('ACPL' or the 'Company') as given below:**

**Particulars**

Facility**	Previous Amount (₹ Cr)	Present Amount (₹ Cr)	Tenure	Previous (Nov 2018)	Present*
<u>Fund based</u> Overdraft Cash Credit	1.88 12.50	1.88 12.50	Long Term	BWR BB / Stable	BWR BB / Stable (Reaffirmed)
<u>Non Fund Based</u> Bank Guarantee (Sublimit of CC)	(4.00)	(1.00)	Short Term	BWR A4	BWR A4 (Reaffirmed)
<b>Total</b>	<b>14.38</b>	<b>14.38</b>	<b>₹ Fourteen Crores Thirty Eight Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

#Non fund based limits are interchangeable as per the respective sanctions of the banks

**Rating Action / Outlook**

The ratings continue to factor, inter alia, the promoters' experience in the dealership business for more than two decades, and established brand name as 'Royal Motor', with one dealership comprising of 1 showroom and workshop in Kolkata. The Company is in the process of opening one more show room for Passenger Vehicle and is also in advanced stage of negotiations with Mahindra for Bolero Maxi truck in commercial segment in FY20. The ratings also factor various measures undertaken by the Company to scale up efficiency of operations, and improvement in financial performance in FY19 as compared to FY18 also in H1FY20, in spite of slowdown in automobile sales. ACPL is expected to increase sales in H2FY20 also on account of the festival season. However, the ratings are constrained by relatively moderate scale of operations which limits market penetration, inherent limitations of the business involving stiff competition from established brands resulting in pressure on profit margin. Further, tightness in working capital due to maintaining of inventories as reflected in utilization of working for more than 90% is also a restraining factor. However, the Company has taken necessary steps to reduce interest cost by

way of reducing inventory levels.

The 'Stable' Outlook is on account of improvement in sales in spite of slow down in the automobile sector, there is negligible long term borrowings and promoters support in terms of providing interest free loan as and when required.

### **Key Rating Drivers**

#### **Credit Strengths :**

- **Experienced and well qualified management team :** The promoters (Mrs Kavita Himatsingka, Mr Nitin Himatsingka and Mr Raja Chandra Garg) are experienced in the dealership business for an average of two decades and are supported by qualified and experienced professional team in place. Over the years, the promoters have developed market reach in West Bengal and North East region, especially in passenger vehicles.
- **Improved Financial Performance in FY19 & H1FY20 :** ACPL continues to perform satisfactorily for the last two years. During FY19, ACPL has reported an increase in an operating income to ₹ 135.69 Crs with an OPBDIT of ₹ 3.51 Crs, while in FY18 ACPL reported an operating income of ₹ 115.51 Crs with an OPBDIT of ₹ 3.42 Crs. Similarly PAT also improved from ₹ 0.13 Crs in FY18 to ₹ 0.22 Crs in FY19. The Company has reported a net sales of ₹ 70.07 Crs with an OPBDIT of ₹ 2.30 Crs for H1FY20 and the Company is expecting better sales in H2 on an account of the festival season. The Company has been maintaining its profitability margin for the last three years, which is expected to maintain over the medium term. It is also supported by infusion of unsecured loan as and when required coupled with adequate cash flows from operating activities and comfortable coverage ratios.

#### **Credit Risks :**

- **Susceptibility to intense competition :** ACPL faces stiff competition from other well-established brands in passenger vehicle. Due to the inherent nature of business model, the operations and profitability are primarily dependent on the principal, Mahindra & Mahindra Limited. ACPL is in single segment business in West Bengal and Assam.
- **Cyclicality in the automobile industry :** The automobile sector is largely correlated with the growth of the Company and consumption sentiment of people. However, it varies to segment to segment like passenger, commercial etc. At this juncture, Government of India has taken steps to reduce dependence on fossil fuel in terms introducing Electrical Vehicle policy and BS VI norms to reduce carbon footprint. The industry is subject to shorter cycles of business, and the impact of market forces is greater, for a longer time
- **Elongated working capital cycle :** Due to the nature of business , at any point in time it need to maintain inventories for at least 1-2 months to meet customer needs. Therefore,



its working capital utilization is more than 90% for the last six months. However, it is partially offset by promoters ability to infuse capital as and when required.

### **Analytical Approach - Standalone**

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 Sensitivities**

The rating reaffirmation of ACPL on an account of continuing to improve the number of car sales as compared to the previous year and income from services of car also marginally improved from previous year. Further, the Company is in the process of opening passenger car show room and commercial showroom (Only for Minitruck). However, the Company's performance will be closely monitored.

**Positive :** The outlook may be revised to positive if there is any substantial increase in scale of operations and profitability margins, further improvement in liquidity, and any substantial reduction in long term debt reducing total debt-to-equity to less than 1 times.

**Negative :** The outlook may be revised to negative if there is any adverse impact on operating income and profitability margins, any adverse impact on the liquidity position, or any debt laden capex from current level. These will be the key rating sensitivities.

**Liquidity Position :** Stretched liquidity characterized by moderate cash accruals of ₹ 0.61 Crs in FY19 and cash & cash equivalent balance of ₹ 0.91 Crs with nil fixed deposits . At the end of FY19, the Company have vehicle loan and interest free loan from promoters of ₹ 2.01 Crs with ₹ 0.02 Crs debt obligations in FY20. Further, utilization of working capital limits is more than 90% for the last six months.

### **Company Profile**

ACPL was incorporated in 1996 as a private limited by the Kolkata-based Himatsingka family. Initially, the Company was into automobile spare parts business and selling of used cars. In 2007, they stepped into automobile dealership of Mahindra & Mahindra Limited for passenger vehicles and commercial vehicles . Currently, the Company is into dealership of Sales, Service and spare parts of Mahindra & Mahindra Limited and also selling used cars under the brand name of 'Royal Motor'. Currently, the Company has one showroom and workshop in Kolkata, however, they can sell all over west Bengal without any restrictions. The Company registered office is in Kolkata, West Bengal.

### Key Financial Indicators

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Income	₹ Cr	115.51	135.69
EBITDA	₹ Cr	3.42	3.51
PAT	₹ Cr	0.13	0.22
Tangible Net Worth	₹ Cr	3.19	3.41
Total Debt / Tangible Net Worth	Times	10.55	10.48
Current Ratio	Times	1.05	1.27

**Key Covenants of Instrument / Facility Rated : Not Applicable**

**Non-Cooperation with previous Rating Agency, if any : Not Applicable**

**Any other information : Not Applicable**

**Rating History for the last three years**

Facilities	Current Rating (2019)			Rating History		
	Tenure (Long Term/ Short Term)#	Amount (₹ Cr)	Rating	28-Nov-2019	27-Nov-2018	2017
Fund Based	Long Term	14.38	BWR BB / Stable	Rating Not reviewed	BWR BB / Stable	-
Non Fund Based	Short Term	(1.00)	BWR A4		BWR A4	-
<b>Total</b>		<b>14.38</b>	<b>₹ Fourteen Crores Thirty Eight Lakhs Only</b>			

*#As detailed in annexure 1*

### Complexity Levels of the Instruments

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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**Auto Carriage Pvt Ltd**  
**Details of Bank Facilities rated by BWR**

**Annexure I**

	Type of Facilities	Central Bank of India
Fund Based	Cash Credit	12.50
	Overdraft	1.88
<b>Total - Long Term</b>		<b>14.38</b>
Non Fund Based	Bank Guarantee (Sublimit of CC)	(1.00)
<b>Total - Short Term</b>		<b>(1.00)</b>
<b>Total (Long &amp; Short)</b>		<b>14.38</b>
<b>₹ Fourteen Crores Thirty Eight Lakhs Only</b>		

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