RATING RATIONALE **26 Mar 2021**

Auto Carriage Private Limited

Brickwork Ratings reaffirms the ratings of the enhanced long term bank loan facilities and upgrades the ratings of the short term bank loan facilities of Auto Carriage Private Limited (ACPL or 'the company'), aggregating Rs. 18.10 Crores, as per details below:-

Particulars:

Facilities*	Amount (Rs. Cr)		Tenure	Rating**	
	Previous	Present		Previous (16-Dec-2019)^	Present (Mar 2021)
Fund based	14.38	**18.10**	**Long Term**	BWR BB (Stable) Reaffirmed	**BWR BB (Stable) Reaffirmed**
Non-Fund based	(1.00)	**(1.00)**	**Short Term**	BWR A4 Reaffirmed	**BWR A4+ Upgraded**
Total	14.38	**18.10**	**Rs. Eighteen Crores and Ten Lakhs Only**		

* Details of Bank Loan facilities are provided in Annexure-I
**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
^Issue of Advisory for delay in rating review on 15/01/2021

RATING ACTION: Long Term Rating Reaffirmed, Short Term Rating Upgraded

BWR has essentially relied upon the audited financial statements of ACPL up to FY20, relevant data - to the extent available - for the period 1/4/20 to 31/1/21, projected financials up to FY22, publicly available information, and information/clarifications provided by the company's management and their lenders, to arrive at the present ratings.

Brickwork Ratings **reaffirms** the ratings of the enhanced long term bank loan facilities of Auto Carriage Private Limited (ACPL or 'the company') of Rs. 18.10 Crores at **BB+. Stable,** and **upgrades** the ratings of their short term bank loan facilities of Rs. 1.00 crore (sublimit of the long term cash credit facility of Rs.12.50 Crores) to **BWR A4+** (aggregate rated amount Rs.18.10 Crores).

The reaffirmation of the ratings of long term bank loan facilities at BWR BB (Stable) and upgradation of the ratings of short term bank facilities to BWR A4+ for the bank loan facilities of ACPL, factors in long track record of operations and experienced promoters in automobile dealership industry, favorable financial parameters as per FY20 audited financials, improvement in the liquidity position of the company in FY20 and improvement in the conversion cycle.

The ratings are, however, constrained by low net worth and high gearing, its moderate scale of operations, geographical concentration risk as the company operates in the state of West Bengal only, susceptibility to stiff competition due to fragmented nature of industry, and exposure to inherent cyclicality of the Indian auto industry

The rating has been assigned a “Stable” outlook, as the business risk profile of the company is stable, and the growth in the business and profitability is expected to be maintained in the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Long track record of operations and experienced promoters**: ACPL has been engaged in the automobile dealership business since 2007. Accordingly, it has a long track record of more than a decade in automobile dealership business, supported by the long standing experience of the Directors of ACPL in the automobile industry.
- **Improvement in the liquidity position of the company**: The liquidity position of the company in FY 20 improved over FY 19. This improvement is marked by an increase in cash accruals to Rs. 1.28 Crores in FY 20 as against Rs. 0.61 Crores in FY 19; cash flow from operating activities at Rs. 16.41 Crores in FY 20 as against Rs. 1.75 Crores in FY 19; ISCR at 1.37x in FY 20 as against 1.13x in FY 19; DSCR at 1.37x in FY 20 as against 1.09x in FY 19; and conversion cycle at 64 days in FY 20 as against 84 days in FY 19.
- **Conversion Cycle:** The company’s conversion cycle has improved from 84 days in FY19 to 64 days in FY20. This was on account of better inventory management which is a critical factor for auto dealerships.

Credit Risks:

- **Low net worth and high gearing:** The tangible net worth of the company at Rs. 4.09 Crores, as on 31/3/2020 stood low - resulting in a high gearing of 5.51x.
- **Moderate scale of operations:** The scale of operations of ACPL, which remained modest marked by total operating income of Rs. 139.55 Crores in FY 20 as compared to Rs. 135.69 Crores in FY 19, is expected to continue going forward.
- **Geographical concentration risk:** The Company has its operations across few regions of West Bengal only, thereby entailing geographic concentration risk.
- **Susceptibility to stiff competition and volatility in operating margins:** ACPL faces stiff competition from other well-established brands in the passenger vehicle segment. The automotive dealership industry is highly fragmented with intense competition from dealerships of competing OEMs, which inherently exerts pressure on its margins. Additionally, increasing dealer outlets of other OEMs can impact growth. Due to the inherent nature of the dealership nature of business, the company’s operating profit margin remained at moderate at 2.83% in FY 20.
- **Exposed to inherent cyclicality of the Indian auto industry:** The Company also remains exposed to the cyclical downturns in the Indian passenger-vehicle industry, leading to volatility in revenue and profitability. However, the vehicle scrapping policy announced by the GOI, is expected to boost the overall auto sector in the coming days.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA: Standalone approach. For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria given below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES:

Upward Factors

Factors that could lead to an upgrade in the ratings are:

1. Consistent improvement in the operational performance, while maintaining adequate liquidity.
2. Specific credit metrics that could lead to an upgrade include:-
   - ❏ Improvement in ISCR and DSCR on a sustained basis
   - ❏ Improvement in Total Debt/Tangible Net Worth over the present levels on a sustained basis.

Downward Factors

Factors that could lead to an upgrade in the ratings are:

1. Deterioration in the company's liquidity position
2. Delay in servicing of interest/installment obligations towards the lenders
3. Specific credit metrics that could lead to a downgrade include:-
   - ❏ Non achievement of sales vis-a-vis projections on a continuous basis
   - ❏ Any deterioration in gearing and coverage ratios below the present levels.

LIQUIDITY POSITION: ADEQUATE

The liquidity position of ACPL stands improved to adequate, characterized by net cash accruals of Rs. 1.28 Crores in FY 20, cash and cash equivalents at Rs. 1.00 Crores as on 31/12/20. It is expected that the company would meet its near term commitments through its internal sources and yet be left with adequate cash surplus in the form of cash/bank balance. Cash accruals after having met the interest and tax obligations in FY21 and FY 22 are projected at ~Rs. 2.28 Crores and ~Rs. 2.71 Crores respectively, which would be sufficient to meet the debt installment obligations in the corresponding period and yet be left with surplus balance. ACPL was also sanctioned Covid Assistance Loan and GECL by Central Bank of India in FY 21, which provides cushion in terms of liquidity. All of the above reinforces the adequate liquidity position of the company.

The current ratio at 1.08x, ISCR at 1.37x and DSCR at 1.31x respectively as on 31/3/2020, are expected to improve going forward.

COMPANY'S PROFILE

Incorporated in 1996 as a private limited company by the Kolkata-based Himatsingka family, ACPL started its operations with an automobile shop and selling of used cars. Since 2007, ACPL has been running the automobile dealership business for passenger vehicles, offering Sales, Services and Spare parts, for the dealership of Mahindra & Mahindra in West Bengal (South Kolkata, Serampore, Behala).The Company's registered office is in Kolkata, West Bengal.

Mr. Nitin Himatsingka, Mr. Rishabh Himatsingka and Mrs. Kavita Himatsingka are the promoters and directors of the company. All the directors have extensive experience in the same line of business for more than a decade.Mr. Nitin Himatsingka looks after the operations of West Bengal. He also looks after the finance for the entire group. He is an MBA (Finance) from ISB Hyderabad. Mr. Rishabh Himatsingka looks after the operations of Northeast India.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	9MFY21 (Management Certified Provisionals)	FY 20 (Audited)	FY 19 (Audited)
Operating Revenue	Rs. Crs	77.38	139.55	135.69
EBITDA	Rs. Crs	3.16	3.96	3.51
PAT	Rs. Crs	1.11	0.67	0.22
Tangible Net worth	Rs. Crs	5.20	4.09	3.41
Total Debt/Tangible Net worth	Times	3.42	5.51	10.48
Current Ratio	Times	1.40	1.08	1.02

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

The terms of sanction include standard covenants, normally stipulated for bank loan facilities

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawals and suspensions):

Facilities	Current Rating (Mar 2021)			Rating History		
	Tenure	Amt (Rs. Cr)	Rating	2020	16/12/19^	27/11/18#
Fund Based (FB)	Long Term	18.10	BWR BB Stable Reaffirmed, with enhancement in amount	-	FB | 14.38 | BWR BB (Stable)% %Reaffirmed with no change in amount	FB | 14.38 | BWR BB (Stable) Assigned
Non-Fund Based	Short Term	(1.00)	BWR A4+ Upgraded	-	NFB | (1.00) | BWR A4* *Reaffirmed with reduction in amount	NFB | (4.00) | BWR A4 Assigned
Total		18.10	Rs. Eighteen Crores and Ten Lakhs Only			

^ Issue of Advisory for delay in rating review on 15/1/21
#Ratings moved to Not reviewed advisory on 28/11/19

COMPLEXITY LEVELS OF THE INSTRUMENTS
For information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Services Sector

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Auto Carriage Private Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1.	Cash Credit	12.50	-	12.50
2.	Overdraft	1.88	-	1.88
3.	Covid Assistance Loan	0.96	-	0.96
4.	GECL	2.76	-	2.76
5.	BG (Sublimit)	-	(1.00)	(1.00)
Total				**18.10**

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