Rating Rationale

Brickwork Ratings assigns 'BWR B' for the Bank Loan facilities amounting to ₹ 13.20 Cr of Coastal Automobiles Private Limited

Brickwork Ratings has assigned the following **Rating**[1] for Bank Loan facilities sanctioned by *State Bank of Hyderabad* to Coastal Automobiles Private Limited *("CAPL" or "the Company")*

Facility	Limits (₹Cr)	Tenure	Rating
Cash Credit	12.00	Long Term	**BWR B (Outlook: Stable)**
Stand by Line of Credit	1.20		
Total	**13.20**	**INR Thirteen Crores & Twenty Lakhs only**	

BWR has principally relied upon the audited financial results for the period FY11 to FY13 of Coastal Automobiles Private Limited, publicly available information and information/clarification provided by the Company's management.

The rating factors in, the promoters' experience and the Company's presence in the dealership business for more than a decade, sole dealership for TATA passenger vehicles in East Godavari district, promoters extended financial support in the form of unsecured loans and diversified profile of allied services. However, the rating is constrained by financial performance in FY13 reflected from marginal increase in the turnover, reduced profitability margins, lower net worth, high inventory holding, need for efficient utilization of working capital limits, continued pricing pressure and intense competition from other brand automobile dealers in the local market

Background and Management:

Coastal Automobiles Private Limited (CAPL) was incorporated on 30th Sep 1999. Mr. Suresh Babu and Ms. Vara Lakshmi is the promoter Directors of the Company. CAPL is an Authorized Dealer for TATA Motors Limited for its entire range of passenger cars segment in East Godavari and surrounding districts. The Company has three showrooms and services centers located at Rajahmundry, Kakinada and Tadepalligudem. The main showroom is located at NH5 road, besides the ONGC Base Complex, Rajahmundry, covering an area of 14,000 square foot. As a forward extension to the passenger car dealership, the Company has ventured into providing Vehicle Hire Services for reputed clients like ONGC, Gail and RIL in its vicinity.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

CAPL Financial Performance:

For FY13, the Company has reported net profit of ₹ 0.51 Cr on total operating income of ₹89.67 Cr, registered minimal growth in revenues from ₹ 85.77 Cr in FY12 and a fall in the net profit from Rs.1.50Cr in FY12. The operating profit margins are declined from 6.13% in FY12 to 4.24% in FY13 and also in the net profit margins from 1.75% in FY12 to 0.57% in FY13. The marginal growth in revenues and decline in profit margins although attributed to slump in the automobile industry has its implications on the Company's financials. As of 31st March 2013, the tangible net worth of the Company stood at ₹ 7.17 Cr and unsecured loans from related at ₹ 5.64 Cr. The gearing level at 2.60 times, although reduced from previous year needs to be further strengthened.

Rating Outlook:

Going forward, the Company's ability to grow and sustain in the industry by scaling up its operations, improve profitability margins and capital structure, efficient inventory and working capital management will remain the key rating sensitivities.

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