Rating Rationale

Novelty Reddy and Reddy Motors Private Limited

10 May 2019

Brickwork Ratings reaffirms 'BWR BB/A4' for the bank loan facilities of Rs. 16.50 Crore of Novelty Reddy and Reddy Motors Private Limited *['NRRMPL' or 'the company']*, Hyderabad, Telangana

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
Fund Based Cash Credit	12.50	12.50	Long Term	**BWR BB** *(Pronounced as BWR Double B)* **Outlook: Stable**	**BWR BB** *(Pronounced as BWR Double B)* **Outlook: Stable** *Reaffirmed*
Non Fund Based Letter of Guarantee	4.00	4.00	Short Term	**BWR A4** *(Pronounced as BWR A Four)*	**BWR A4** *(Pronounced as BWR A Four) Reaffirmed*
Total	**16.50**	**Rs. 16.50 Crore (Rupees Sixteen Crore Fifty Lakh Only)**			

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

Ratings reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the audited financials upto FY18, projected financials upto FY20, publicly available information and information/clarifications provided by the company's management.

The ratings reaffirmation continues to factor the experience of the management in automobile dealership business, established operational track record and presence in the West Godavari region and long standing relationships with its principal, Maruti Suzuki India Limited. However, the ratings continue to be constrained by the geographical concentration, limited bargaining power in the intensely competitive automobile dealership business, subdued financial profile characterised by low net worth, thin profitability and leveraged capital structure, working capital intensity of business and inherent risks associated with automobile dealership business.

Going forward, the company's ability to increase its scale of operations, improve profitability, strengthen its capital structure and maintain optimal working-capital intensity would be the key rating sensitivities.

Key Rating drivers

Credit Strengths:

- **Experienced management:** The promoters have more than two decades of experience in the automobile dealership business. NRRMPL is an authorized dealer of Maruti Suzuki India Limited Limited's passenger cars in West Godavari district, Andhra Pradesh. The other automobile dealerships established by the promoters are Reddy and Reddy Automobiles *[Authorised dealer of Hero MotoCorp Limited's range of two-wheeler vehicles in West Godavari, Andhra Pradesh]* and Reddy and Reddy Motors *[Authorised dealer of Maruti Suzuki India Limited's passenger vehicles in West Godavari, Andhra Pradesh]*. The firm benefits from the promoters' understanding of the dynamics of the automobile industry and established relationships with Maruti Suzuki India Limited as well as its customers.
- **Established operational track record:** NRRMPL is an authorized dealer of Maruti Suzuki India Limited's passenger cars in West Godavari district, Andhra Pradesh. The company has 3S facilities at Bhimavaram and Tanuku and display showrooms at Kovvur and Nidadavole.

Credit Constraints:

- **Below average financial risk profile:** NRRMPL's debt servicing capabilities are moderate reflected by ISCR of 1.29 times for FY18 as against 1.34 times for FY17. NRRMPL's tangible net worth was low at Rs. 4.61 crore as on 31st March 2018 as against Rs. 4.54 crore as on 31st March 2017. The company has a highly leveraged capital structure reflected by Total Debt/Tangible net worth of 4.06 times as on 31st March 2018 as against 3.18 times as on 31st March 2017 and TOL/Tangible net worth at 6.73 times as on 31st March 2018 as against 6.07 times as on 31st March 2017. NRRMPL's profitability margins are low with net profit margin of 0.29% for FY18 as against 0.46% for FY17 and operating profit margin of 3.57% for FY18 as against 3.30% for FY17.
- **Working capital requirement:** NRRMPL's utilisation of its bank lines was high at around 95% over the last 6 months. The company is primarily dependent on working capital facilities availed from the bank. The firm has also received inventory funding from banks and various NBFCs.
- **Exposure to intense competition:** Entry barriers in automobile dealership business are low and the auto-dealership business is characterised by thin margins, weak bargaining position and high working-capital requirements. NRRMPL faces stiff competition in the region from dealers promoting the same brand as well as other established competing brands. Given that passenger car dealership is a trading business, the pricing power of dealers is limited.

Furthermore, operations are concentrated in West Godavari, Andhra Pradesh, leading to exposure to any downturns in the economy of the state.

Liquidity: Current ratio was just adequate at 1.19 times as on 31st March 2018 as against 1.16 times as on 31st March 2017. Net cash accruals to total debt was low at 0.03 times as on 31st March 2018 as against 0.05 times as on 31st March 2017. Cash conversion cycle was moderate at 79 days for FY18 as against 55 days for FY17. Cash & Cash equivalents were low at Rs. 0.21 crore as on 31st March 2018.

Analytical Approach

Brickwork Ratings has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

Brickwork Ratings believes that **Novelty Reddy and Reddy Motors Private Limited'** *['NRRMPL' or 'the company']* 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 outlook may be revised to 'Positive' if sales and margins improve significantly leading to prudent cash generation, along with better working capital management. Conversely, the outlook may be revised to 'Negative' if the financial risk profile, particularly liquidity, weakens because of stretch in working capital cycle, low cash generation or any unanticipated large debt-funded capital expenditure.

About the Company

Novelty Reddy & Reddy Motors Private Limited *['NRRMPL' or 'the company'],* a family business, was incorporated in January 2007, at Bhimavaram, West Godavari, Andhra Pradesh. NRRMPL is part of Andhra Pradesh based Reddy & Reddy Group. The company is an authorised dealer for Maruti Suzuki India Limited's passenger cars in West Godavari district, Andhra Pradesh. The firm has 3S facilities at Bhimavaram and Tanuku and display showrooms at Kovvur and Nidadavole.

The other main operating entities of Andhra Pradesh based "Reddy and Reddy Group" are Nexus Feeds Limited *[engaged in the manufacturing of aqua feed],* Nexus Well-Hope Agritech International Limited *[engaged in the manufacturing of poultry feed],* Reddy and Reddy Imports and Exports *[engaged mainly in trading of aqua feed and also engaged in manufacturing of Shirt buttons],* Reddy and Reddy Automobiles *[Authorised dealer of Hero MotoCorp Limited's two-wheeler vehicles in West Godavari, Andhra Pradesh]* and Reddy and Reddy Motors *[Authorised dealer of Maruti Suzuki India Limited's passenger vehicles in West Godavari, Andhra Pradesh]*.

Financial Performance

The company has achieved a revenue of Rs. 77.42 crore in FY18 as against Rs. 90.91 crore in FY17. Profit after tax was Rs. 0.22 crore for FY18 as against Rs. 0.42 crore for FY17. Tangible net worth was low at Rs. 4.61 crore as on 31st March 2018. On a provisional basis, the company has achieved a revenue of around Rs. 90 crore in FY19.

Key Financial Parameters

Particulars		31 Mar 2017	31 Mar 2018
		Audited	**Audited**
Net Revenue	Rs. Cr	90.91	77.42
EBITDA	Rs. Cr	3.00	2.76
Profit After Tax	Rs. Cr	0.42	0.22
Tangible Net Worth	Rs. Cr	4.54	4.61
Total Debt : Tangible Net Worth	Times	3.18	4.06
Current Ratio	Times	1.16	1.19

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2018[1] *[Mar 27, 2018]*	2017	2016
1	Cash Credit	Long Term	12.50	**BWR BB** *(Pronounced as BWR Double B)* Outlook: Stable *Reaffirmed*	**BWR BB** *(Pronounced as BWR Double B)* Outlook: Stable	-	-
2	Letter of Guarantee	Short Term	4.00	**BWR A4** *(Pronounced as BWR A Four) Reaffirmed*	**BWR A4** *(Pronounced as BWR A Four)*	-	-
Total		**Rs. 16.50 Crore (Rupees Sixteen Crore Fifty Lakh Only)**					

1 Amount Rated: Rs. 16.50 Crore

Status of Non-Cooperation with other CRA: CARE Ratings vide its press release dated 12th January 2018, has migrated the ratings to Issuer Not Cooperating* category as the firm had not provided the requisite information for surveillance of ratings.

**Issuer did not cooperate; Based on best available information*

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- General Criteria
- Trading Entities
- Approach to Financial Ratios

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Annexure I
Bank Loan Facilities

Bank	Facilities	Tenure	Amount (Rs. Crs)
Union Bank of India Bhimavaram Branch, West Godavari, Andhra Pradesh	**Fund Based** Cash Credit	Long Term	12.50
	Non Fund Based Letter of Guarantee	Short Term	4.00
Total			**16.50**

For print and digital media

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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

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