



Rating Rationale

Pawansut Automobile India Pvt. Ltd.

19 July 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 10.00 Crores of Pawansut Automobile India Pvt. Ltd.

Particulars

Facility (Fund Based)	Amount (₹ Crs)	Tenure	Rating*
Cash Credit	10.00	Long Term	BWR B+ (Pronounced as BWR Single B plus) Outlook: <u>Stable</u>
Total	10.00	INR Ten Crores Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities

Brickwork Ratings has principally relied upon the audited financial results upto FY 2018, provisional of FY 2019, projections upto FY 2021, publicly available information and information/clarifications provided by the company's management.

The rating draws strength from diversification of business, association with Ashok Leyland, uptrend in revenue and comfortable debt protection metrics. The rating is however, constrained by low profitability margins, leveraged capital structure, diversion of funds, geographic concentration risk and intense competition.

Going forward, the ability of the company to sustain growth of revenues in double digits as reflected in projections, improving profitability margins, infusion of capital and maintain the comfortable debt protection metrics level shall be the key rating sensitivities.

Credit Strengths

- **Diversification of Business:** Although the promoters of the company do not carry substantial experience in the line of business but they have exposure through other businesses such as undertaking civil contracts from government authorities which has helped the company to survive in different phases of the business cycle.
- **Association with Ashok Leyland:** The company reaps the benefit of its association with Ashok Leyland which is a famous brand in the commercial vehicle segments such as trucks and buses.



The association ensures the revenue visibility in short to medium term.

- **Uptrend in revenue:** The company started its operations in June 2017 and in 10 months of starting its operations, the company clocked revenue of INR 41.49 crores in FY 2018 and as per the FY 2019 (provisional) the company has achieved the total operating revenue of INR 73.91 crores.
- **Comfortable debt protection metrics:** The debt protection metrics of the company marked by DSCR and ISCR of 1.74x and 1.90x respectively in FY 2018 is at the comfortable level and is expected to continue at the same level in the medium term.

Credit Weaknesses

- **Low profitability margins:** The profitability margins of the company are low marked by the operating profit margin and net profit margin of 1.93% and 0.66% respectively in FY 2018. High operating expenses and finance costs has led to less profits which translates to low profitability margins.
- **Leveraged capital structure:** The company has leveraged capital structure as it has high debt level of INR 16.98 crores and low tangible net worth of INR 2.62 crores in FY 2018 which has resulted in high gearing and overall gearing levels marked by Total Debt/TNW of TOL/TNW of 6.47x and 7.17x respectively in FY 2018. The gearing levels are expected to swell in the medium term.
- **Diversion of funds:** The company has low capital base of INR 3.43 crores as per FY 2019 (provisional). Bank fixed deposit (current investments) have been created by the company for INR 12.91 crores in the same fiscal out of the short term borrowings raised at higher rates which indicates diversion of funds to a lower earning asset despite the profitability being low
- **Geographic concentration risk:** The company only caters to districts of eastern part of Uttar Pradesh by which the company is exposed to the risk of geographic concentration affecting the scalability and the profitability of the company.
- **Intense competition:** The company faces the risk of intense competition from other authorized dealers of Tata, Mahindra, Escort Motors, Force Motors, Swaraj Mazda, etc. which again have an adverse impact on the topline and bottomline of the company.

Analytical Approach

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 Outlook: Stable

BWR believes the **Pawansut Automobile India Pvt. Ltd.** 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 rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



About the Company

Incorporated on 13th day of December 2016, Pawansut Automobiles Pvt Ltd started its operations in June 2017 and since then it is dealing in commercial vehicles such as trucks and buses. The company is an authorized dealer of “Ashok Leyland” in Ghazipur, Ballia, Mau, Lucknow, Barabanki, Sitapur, Hardoi, Raebareli, and Unnao district of Uttar Pradesh. The current promoters of the company are Mr. Abhishek Kumar Singh, Mr. Amresh Kumar Singh and Mr. Vivek Kumar Singh who carry experience through their other businesses.

Liquidity Position

The company’s liquidity is supported by cash and cash equivalents of INR 0.15 crores in FY 2018. The total amount of fund based working capital facility of INR 10.00 crores has been fully utilised. The current ratio and quick ratio of the firm at 1.02 and 0.45x respectively in FY 2018 depict inadequacy. The fixed deposits of INR 12.91 crores are reportedly pledged to the bank as security for facility availed.

Company’s Financial Performance

Key Parameters	Units	FY 2019	FY 2018
Result Type		Provisional	Audited
Total Operating Revenue	₹ Cr	73.91	41.49
EBITDA	₹ Cr	2.53	0.80
PAT	₹ Cr	0.30	0.28
Tangible Net worth	₹ Cr	3.43	2.62
TOL/TNW	Times	12.45	7.17
Current Ratio	Times	1.04	1.02

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
1.	Cash Credit	Long Term	10.00	BWR B+ (Pronounced as BWR Single B plus) Outlook: <u>Stable</u>	NA	NA	NA
	Total		10.00	₹ Ten Crores Only			



Status of non-cooperation with previous CRA (if applicable)- NA

Any other information: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)
- [Services Sector](#)

For any other criteria obtain hyperlinks from website

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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

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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