



Rating Rationale

R.K. Mahajan Enterprises

7th March 2018

Brickwork Ratings assigns BWR B+ for the Bank Loan Facilities of Rs. 8.00 Crs of R.K. Mahajan Enterprises

Particulars

Facility Rated#	Amount (Rs. Crs)	Tenure	Rating [^]
Fund Based Overdraft	8.00	Long term	BWR B+ (Pronounced BWR Single B Plus) Outlook : Stable Assigned
Total	8.00 (INR Eight Crores Only)		

[^] Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure-I provides details of bank facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of R.K. Mahajan Enterprises ('RKME' or the Firm) upto FY17, projected financial statements upto FY19, publicly available information and information/clarifications provided by the management.

The rating draws strength from the partners' experience in the two wheeler dealership business and established relationships with clientele and its principal viz., Hero MotoCorp Ltd. The rating is constrained by small scale of operations, low profitability due to dealership nature of business and presence in a highly fragmented and competitive industry.

Going forward, the firm's ability to increase its scale of operations, expand its reach while improving profitability, strengthen its credit profile and manage its working capital effectively would be the key rating sensitivities.

Analytical approach

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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).

Key Rating drivers

- **Promoters' experience**

The firm's partners have experience of around four decades in the two wheeler dealership business.

- **Established relationships with clients and suppliers**

The firm has established and long-standing relationships with clients such as Border Security Force, Canteen Stores Department, and various dealers in and around Jalandhar. RKME deals in vehicles supplied by Hero Motocorp Ltd.

- **Small scale of operations**

RKME's scale of operations is small. Sales from vehicles and spare parts were Rs. 29.66 Crs in FY16 and Rs. 28.79 Crs in FY17. The firm has achieved Sales from vehicles and spare parts of Rs. 24.62 Crs, on a provisional basis for 9MFY18.

- **Low profitability**

The firm has low profitability as the industry is highly competitive and fragmented and margins are low in the trading business. Further, the fortunes of the firm are also linked with those of its principal viz., Hero MotoCorp Ltd. Net profit margin was thin at 1.29% in FY16 and rose marginally to 1.66% in FY17.

- **Liquidity position**

RKME has an adequate liquidity position denoted by Current ratio of around 3.69 times as on 31/3/2016 which increased to 4.73 times as on 31/3/2017.

- **Intense Competition**

The firm faces intense competition from larger and more established players as it is present in a highly fragmented and competitive business environment with low entry barriers and a large number of players.

Rating Outlook : Stable

BWR believes that R.K. Mahajan Enterprises' 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

About the Firm



R.K. Mahajan Enterprises (RKME), was incorporated as a partnership firm in 1976 at Jalandhar, Punjab. The firm is engaged in the the dealership of two wheelers (motorcycles) of Hero MotoCorp Ltd. The firm also provides 3S (Sales, Servicing, Spares) services to its clientele. Major customers include various sub-dealers of the vehicles. The firm has its own showroom located at a prime location in Jalandhar.

Mr Ravi Karan Mahajan, Mr Lalit Mahajan and Mr Sunny Mahajan are the partners and handle the day to day activities of the business.

Financial Performance

The firm reported Sales from vehicles and spares of Rs. 28.79 Crs for FY17 as against Rs. 29.66 Crs in FY16. PAT was Rs. 0.49 Crs for FY17 and Rs. 0.39 Crs for FY16. Partners' Capital, net profit margin and gearing as on March 31 2017 stood at Rs. 3.18 Crs, 1.66% and 1.89 times respectively. The firm has achieved Sales from vehicles and spare parts of Rs. 24.62 Crs, on a provisional basis for 9MFY18.

Key financial indicators are furnished in Annexure II.

Rating History for the last three years:

Instrument/ Facility	Current Rating (March 2018)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2017	2016	2015
Fund Based Overdraft	Long term	8.00	BWR B+ (Outlook : Stable) Assigned	Not Rated	Not Rated	Not Rated
	Total :	8.00	INR Eight Crores Only			

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Hyperlink/Reference to applicable Criteria:

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



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R.K. Mahajan Enterprises
Annexure I – Details of Rated Facilities

Bank Facilities	Rated Amount (Rs. Crs)
Bank of Baroda, GT Road, Jalandhar Branch	
Fund based (Long term) Overdraft	8.00
Total	8.00

Annexure II – Key Financial Indicators

Particulars	FY2016 (A)	FY2017 (A)
Sales from Vehicles and Spares (Rs. Cr)	29.66	28.79
EBITDA (Rs. Cr)	1.19	0.83
PAT (Rs. Cr)	0.39	0.49
Partners' Capital (Rs. Cr)	0.27	3.18
Total Debt : Partners' Capital (Times)	29.30	1.89
Current Ratio (Times)	3.69	4.73

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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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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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