Rating Rationale

Reddy and Reddy Automobiles

06 Jun 2019

Brickwork Ratings assigns 'BWR BB-' for the bank loan facility of Rs. 12.00 crore of Reddy and Reddy Automobiles *['RRA' or 'the firm']*, Bhimavaram, West Godavari, Andhra Pradesh

Particulars

Facilities	Amount (Rs. Crs)	Tenure	Ratings*
Fund Based Cash Credit	12.00	Long Term	**BWR BB-** *(Pronounced as BWR Double B Minus)* Outlook: Stable
Total	**Rs. 12.00 Crore** **(Rupees Twelve Crore Only)**		

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

Ratings assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the audited financials upto FY18, provisional financials of FY19, publicly available information and information/clarifications provided by the firm's management.

The rating draws strength from 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 Hero MotoCorp Limited. However, the rating strengths are partially offset by exposure to geographical concentration, limited bargaining power in the intensely competitive automobile dealership business, below average financial profile characterised by low net worth, thin profitability, highly leveraged capital structure due to the high reliance on working-capital borrowings, working capital intensity of business and inherent risks associated with automobile dealership business.

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

Key Rating drivers

Credit Strengths:

- **Experienced management:** The partners have more than two decades of experience in the automobile dealership business. RRA is an authorized dealer of Hero MotoCorp Limited's

entire range of two-wheeler vehicles, their spares and accessories in West Godavari district, Andhra Pradesh. The other automobile dealerships established by the partners are Novelty Reddy and Reddy Motors Private Limited *[Authorised dealer of Maruti Suzuki India Limited's passenger 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 partners' understanding of the dynamics of the automobile industry and established relationships with Hero Motocorp Limited as well as its customers.

- **Established operational track record:** RRA is an authorized dealer of Hero MotoCorp Limited's entire range of two-wheeler vehicles, their spares and accessories in West Godavari district, Andhra Pradesh. The firm has 3S facilities at Bhimavaram and display showrooms at Palakollu, Narasapuram, Ganapavaram and Akividu. The firm has achieved a revenue of Rs. 72.66 crore in FY18 as against Rs. 53.03 crore in FY17. Profit after tax was Rs. 0.11 crore for FY18 as against Rs. 0.08 crore for FY17. On a provisional basis, the firm has achieved a revenue of around Rs. 93.40 crore in FY19.

Credit Constraints:

- **Below average financial risk profile:** ISCR was relatively low at 1.09 times for FY18 as against 1.07 times for FY17. RRA's partners' capital was low at Rs. 1.24 crore as on 31st March 2018 as against Rs. 1.13 crore as on 31st March 2017. The firm has a highly leveraged capital structure reflected by Total Debt/ Partners' Capital of 12.17 times as on 31st March 2018 as against 13.66 times as on 31st March 2017 and TOL/Partners' Capital at 17.93 times as on 31st March 2018 as against 18.88 times as on 31st March 2017. RRA's profitability margins are low with net profit margin of 0.15% for FY18 and for FY17 and operating profit margin of 2.84% for FY18 as against 3.65% for FY17.
- **Working capital intensity:** RRA's utilisation of its bank lines was high at around 98% over the last 6 months. The firm is primarily dependent on working capital facilities availed from the bank. The firm has also availed unsecured fund based credit facilities from Hero MotoCorp Limited and L&T Finance Limited.
- **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. RRA faces stiff competition in the region from dealers promoting the same brand as well as other established competing brands. Given that two wheeler 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 1.23 times as on 31st March 2017. Net cash accruals to total debt was low at 0.01 times as on 31st

March 2018 and as on 31st March 2017. The cash conversion cycle is moderate at 73 days for FY18 and 117 days for FY17. Cash & Cash equivalents stood at Rs. 0.20 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 **Reddy and Reddy Automobiles'** *['RRA' or 'the firm']* 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 better 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

Reddy & Reddy Automobiles *['RRA' or 'the firm'],* a family owned partnership firm, was established in April 2004, by Shri. Ramakrishna Reddy and Smt. G Radha, at Bhimavaram, West Godavari, Andhra Pradesh. RRA is part of Andhra Pradesh based Reddy & Reddy Group. The firm is an authorised dealer for Hero MotoCorp Limited's entire range of two-wheelers, their spares and accessories in West Godavari district, Andhra Pradesh. The firm has 3S facilities at Bhimavaram and display showrooms at Palakollu, Narasapuram, Ganapavaram and Akividu.

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],* Novelty Reddy and Reddy Motors Private Limited *[Authorised dealer of Maruti Suzuki India Limited's passenger 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

Key Financial Parameters

Particulars		31 Mar 2019	31 Mar 2018
		Audited	Audited
Net Revenue	Rs. Cr	53.03	72.66
EBITDA	Rs. Cr	1.93	2.06
Profit After Tax	Rs. Cr	0.08	0.11
Partners' Capital	Rs. Cr	1.13	1.24
Total Debt : Partners' Capital	Times	13.66	12.17
Current Ratio	Times	1.23	1.19

On a provisional basis, the firm has achieved a revenue of around Rs. 93.40 crore in FY19.

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2018	2017	2016
1	Cash Credit	Long Term	12.00	**BWR BB-** *(Pronounced as BWR Double B Minus)* Outlook: Stable	-	-	-
Total		**Rs. 12.00 Crore (Rupees. Twelve Crore Only)**					

Status of Non-Cooperation with other CRA:

1. CARE Ratings vide its press release dated 29th January 2019, has migrated the ratings to Issuer Not Cooperating* category as the firm had not provided the requisite information for surveillance of rating.
2. CRISIL Ratings vide its press release dated 13th December 2016, has suspended the ratings, as the firm was non-cooperative for the review of the rating.

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

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- General Criteria
- Manufacturing Companies
- 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	12.00
Total			**12.00**

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

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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