

## Rating Rationale

### Brickwork Ratings assigns 'BWR B+' for the Bank Credit Facilities of ₹ 7.34 Cr of Aakash Auto Private Limited

Brickwork Ratings (BWR) has assigned the following **Rating<sup>1</sup>** for the Bank Credit Facilities of ₹ 7.34 Cr of Aakash Auto Private Limited

| Facility                                       | Limit (₹ Cr) | Tenure                                           | Rating                                                 |
|------------------------------------------------|--------------|--------------------------------------------------|--------------------------------------------------------|
| Cash Credit EDFs                               | 5.50         | Long Term                                        | <b>BWR B+</b><br>(BWR B Plus)<br><br>(Outlook: Stable) |
| Cash Credit- Spare Accessories and Receivables | 1.00         |                                                  |                                                        |
| Term Loan                                      | 0.39         |                                                  |                                                        |
| Term Loan (New)                                | 0.45         |                                                  |                                                        |
| <b>Total</b>                                   | <b>7.34</b>  | <b>Seven Crores &amp; Thirty Four Lakhs only</b> |                                                        |

The Rating has, inter alia, factored the weak financial risk profile marked by low net worth. The weakness also considers the geographical concentration risk of the dealership, the moderate acceptance of Chevrolet brand in India and relatively low number of vehicles under this brand. The rating weaknesses are partially offset by promoters' good experience in the dealership business.

BWR has essentially relied upon the audited financial results of Aakash Auto Private Limited upto FY2011-12, provisional financials of FY2012-13, projections for FY2013-14, FY2014-15 and clarifications provided by the Company.

#### Background:

Aakash Auto Private Limited was incorporated in 2005 and is the authorized dealer of Chevrolet Sales India Private Limited. The Company is headquartered in Puducherry and has dealership activities spread in Puducherry along with the neighboring region in Tamil Nadu, viz., Cuddalore.

The Company is promoted by Mr. C.Palanivel, who is the Managing Director. He has an immense experience of over 15 years handling various businesses. He has a good network in Puducherry and other neighboring districts of Tamil Nadu. The other Director of the

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Rating

Company is Mr. S.Rajavel, who also has immense knowledge and experience in handling a dealership business.

The company has dedicated display store for 4-Wheeler vehicles of Chevrolet Sales India Private Limited, at Puducherry. This store displays all the latest varieties of Chevrolet cars along with some demo vehicles. The company has a separate service center for Chevrolet vehicles in Puducherry. APL has recently started a display store cum service center in Cuddalore, Tamil Nadu. Thus, the company caters to the retail customers of Puducherry and Cuddalore, Tamil Nadu.

The Company, as an authorized dealer, has its supplies from Chevrolet Sales India Private Limited. The Company's sales, to a large extent, are related to the performance of Chevrolet's vehicles and also new launches in its various segments. The sales would also largely depend on the acceptance of the Chevrolet vehicles by the retail customers. Macroeconomic factors such as interest rates, fuel prices play a very crucial role in affecting the demand for 4-Wheeler vehicles.

#### **Financial Performance:**

The Company's overall turnover has witnessed a growth in revenues for FY11 & FY12 mainly due to increased sales of the vehicles. The operating profit has increased from 2.75% in FY11 to 3.49% in FY12. The net profits have increased from 0.44% in FY11 to 0.97% in FY12.

The overall debt to net worth ratio of the Company is at 1.81 for FY12. This ratio is expected to significantly increase in FY13, primarily due to new term loans being taken by the company. For FY12, the net worth of the Company is at ₹1.55 crores and has seen an increase partly due to infusion of fresh equity and plough back of profits for the year. The Company has moderate Return of Capital Employed (RoCE) at 17.75% for FY12. The Company has provided a provisional turnover of ₹27.27 Crores for FY2012-13.

#### **Rating Outlook:**

The ability of the Company to scale up its operations without affecting the profitability margins is an important criterion for its future performance. Also, the future performance of APL depends largely on the ability to sustain the growth in sales in a weak macroeconomic scenario. APL's ability to strengthen the capital structure and reduce the cash conversion cycle going forward is the other rating sensitivity.

|                                                                                |                                                                            |
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