Press Release

Sanghi Brothers (Indore) Private Limited

April 24, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
1	Long Term Bank Facilities	73.85	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	19.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	**92.85 (Rupee ninety two crores and eighty five lakhs)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sanghi Brothers (Indore) Private Limited (SBIPL) draws comfort from extensive experience of its promoters and management, it's established market position in distributorship of Tata Motors limited (TML) commercial vehicle (CV) and passenger vehicle (PV) in Madhya Pradesh, infusion of equity by the promoters and stable financial performance marked by improvement in total operating income. However, the rating strengths are partially offset by its moderate capital structure coupled owing to its working capital intensive nature of operations, low margin business with pricing constraints and non-existence of bargaining power and stretched debt protection metrics. The ratings also consider it's fortunes linked to TML and the cyclical nature of the auto industry.

Key Rating Sensitivities

Upward Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with utilisation of bank borrowings to remain below 90% on a sustained basis

- Improvement in capital structure and debt protection metrics with interest coverage ratio to above 1.5x

Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 4x and interest coverage to below 1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of the promoters**
  SBIPL has been promoted by Sanghi family, who had been associated with the automobile industry since last six decades and had established healthy relationship with the principals. The day to day affairs of the company are managed by directors, Ms. Ragini Sanghi, Ms. Priya Sanghi and Ms. Jyotsana Sanghi,. They are in the automobile dealership business for more than a decade. Further, the Sanghi family has also promoted other companies which are also in automobile dealership.
- **Established market position in distributorship in Madhya Pradesh**
  SBIPL has an established presence as authorised dealer for Tata Motors Ltd's commercial vehicles and passenger vehicles, spare parts and services in Madhya Pradesh and has four territories under its belt: Indore, Bhopal, Chhindwara, and Neemuch, which includes 31 districts.
- **Infusion of equity by promoters**
  The promoters had infused equity by way of preference shares to the tune of Rs.3.01 crore in FY19 to support its business. The promoters keep on infusing their own fund in the form of Unsecured Loan as and when required.
- **Stable financial performance marked by improvement in total operating income**
  The total operating income of SBIPL grew at a CAGR of ~19% with y-o-y growth of ~18% in FY19 to Rs.1209.83 crore driven by increase in sale of commercial vehicles from 7447

vehicles in FY18 to 8813 vehicles in FY19 as ban on mining and crushing by National Green Tribunal was lifted and migration by transporters from low tonnage to high tonnage vehicles to avail benefits of economies of scale and Pradhan Mantri Grameen Aajeevika Yojna. As per 9MFY20 numbers, the company has reported sales of around Rs.700 crore.

Key Rating Weakness:

- **Linked to the fortunes of TML and inherent risk from external factors**

SBIPL being an authorized dealer of TML is vulnerable to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of TML's vehicles in the market (TML's CV business sales in the domestic market for FY19, recorded a growth of ~17%.) and their ability to launch new products as per the market dynamics. Further, SBIPL, like other players in the automobile, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as evasion of tax rates, fluctuation in prices of fuel,initiative taken by government to reduce carbon print like BS-VI emission norms, shifting investment to electric vehicles, change in customer demands etc.

- **Inherent low margin business with non-existence of bargaining power and pricing constraints**

The company operates on a fixed margin basis wherein prices and margins are fixed by the principals.Product pricing is level marked by the principal companies at the time of dispatch, thereby restricting the company to earn incremental margins. SBIPL also lacks bargaining power due to its dependence on such large principals that set policies, targets and link incentive based income to satisfactory compliance of such policies. Though the trading nature of SBIPL's operation leads to thin operating margins, improvement has been witnessed in the margins which stood at 2.94% in FY18 vis-a-vis 3.16% in FY19. The improvement in the margins was on account of higher incentive received by SBIPL from TML on achievement of the targeted volume sale during the year(the incentives received has been adjusted with the purchasing price of vehicles).Driven by improvement in margins the company has earned gross cash accruals of Rs.10.03 crore in FY19 as compared to Rs.7.84 crore in FY18.

- **Working capital intensive nature of operations**

Inventory management is crucial for SBIPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. Of the inventory, around 20%-30% is backed by orders from the customers thus minimizing piling of stock. Instances of build-up of inventory normally take place during the year end in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 36 days in FY19 (~24 days in FY18). Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up some time, the average collection period of the company remained moderate at around a month. On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high. However, the working capital utilisation levels of the company remains high as average utilisation levels remained at around ~85% during the last 12 months ended February 2020.

- **Moderate capital structure coupled with stretched debt protection metrics**

The company has a moderate capital structure mainly on account of its modest net worth base of Rs.88.43 crore (including subordinated unsecured loan of Rs.31.53 crore) as on March 31, 2019 and borrowings to fund its working capital requirements. The long-term debt-equity and overall gearing ratio of the company improved on the back of accretion of profit to reserves and stood at 0.57x &2.58x as on Mar.31, 2019 vis-a-vis 0.68x & 4.47x as on March 31, 2018. Total indebtedness of the company as reflected by the TOL/ANW also improved from 4.47x as on March 31, 2018 to 3.27x as on March 31, 2019. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained stretched at 1.30x and 22.74 years in FY19.

- **Cyclical nature of the auto industry**

The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Fuel prices have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The company thus faces significant risks associated with the dynamics of the auto industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The company had generated sufficient cash accrual of around Rs.10.03 Cr in FY19 as against repayment of Rs.8.09 Cr. The company is expected to generate steady cash accrual over the near medium term against scheduled repayment obligation (Rs.9.46 crore in FY20 and 9.46 crore in FY21 respectively). However, the Company's average utilisation of its bank lines was high, at around 85 per cent over the 12 months ended February 2020 indicating a limited liquidity buffer.

About the Company

Sanghi Brothers (Indore) Private Limited (SBIPL) was incorporated in the year 1950 by Sanghi Family, to take over the running concern of Sanghi Brothers, (partnership firm), who established its business at Indore in the year 1932. The company is engaged in dealership of commercial vehicles as well as passenger cars for Tata Motors Limited (TML) in Madhya Pradesh. It is one of the largest dealers of TML in India and is associated with it since last six decades. It also holds dealership of luxury automobiles like Jaguar and Land Rover. This apart, the company has diversified business operations into manufacturing of copper and brass bars, strips and foils and components etc. under its Metal Division.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	1026.63	1209.83
EBITDA	30.17	38.24
PAT	2.76	4.85
Total Debt	186.42	228.11
Tangible Net worth	58.70	88.43
EBITDA Margin (%)	2.94	3.16
PAT Margin (%)	0.27	0.40
Overall Gearing Ratio (x)	3.18	2.58

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	71.00	IVR BB+/ Stable Outlook	-	-	-
2.	Term Loan	Long Term	2.85	IVR BB+/ Stable Outlook	-	-	-
3.	Bank Guarantee	Short Term	3.00	IVR A4+	-	-	-
4	Letter of Credit	Short Term	16.00*	IVR A4+			

***Rs.2.00 crore is interchangeable with bank guarantee**.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	71.00	IVR BB+ / Stable Outlook
Long Term Bank Facilities- Term Loan	-	-	FY22	2.85	IVR BB+/ Stable Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	3.00	IVR A4+
Short Term Bank Facilities- Letter of Credit	-	-	-	16.00*	IVR A4+
Total				**92.85**	

Rs.2.00 crore is interchangeable with bank guarantee