Press Release

S.G.S Motors Private Limited

January 30, 2020

Rating

Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
Bank Facilities- Long Term	30.00	IVR BBB- Stable Outlook (IVR Triple B Minus with Stable Outlook)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of S.G.S Motors Private Limited (SMPL) 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) in Madhya Pradesh and stable financial performance with moderate debt protection metrics. However, the rating strengths are partially offset by its leveraged capital structure attributable to its working capital intensive nature of operations and low margin business with pricing constraints and non-existence bargaining power. The rating also consider it's fortunes linked to TML, inherent risk from external factors and the cyclical nature of the auto industry.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income, operating margin and cash accrual, and improvement in working capital management strengthen key credit metrics
- Improvement in debt protection metrics

Downward factor:

- Low operating income and cash accrual, a 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 5x and interest coverage to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive industry experience of the promoters

The founder, Mr. Sharad Kumar Sanghi had been in the automobile industry for more than five decades and had established healthy relationship with the principals. Under the guidance of Mr. Sanghi the day to day affairs of the company are managed by directors, Ms. Jyotsana Sanghi and Ms. Priya Sanghi, both has also been in the automobile dealership business for around two decades. Further, the Sanghi family has also promoted other companies which are also in automobile dealership.

Established market position in distributorship in Madhya Pradesh

SMPL has an established presence as sole authorised dealer for Tata Motors Ltd's (TML), CV, spare parts and services market in Madhya Pradesh. The company has total 7 showrooms in Madhya Pradesh. SMPL derives ~96.5% revenue from sale of commercial vehicle, ~2.5% from sale of spare parts and rest from services rendered in FY19.

Stable financial performance and moderate debt protection metrics

SMPL has achieved a significant growth of ~93% in FY18 driven by driven by increase in sale of CV's 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. During FY19, the company has sold 2701 units of CV as compared to 2667 unit in FY18. Despite increase in unit sales SMPL witnessed marginal moderation of ~5% in its total operating income in FY19 largely on account of change in product mix. The debt protections parameters are comfortable, marked by interest coverage ratio of 2.86x in FY19 (1.93x in FY18) and DSCR of at 1.83 in FY19 (1.39x in FY18).Total debt to GCA has improved yet remained high at 10.94 years in FY19 (19.80 years). Further, till November 2019, the company has also achieved a total operating income of Rs.183.26 crore.

Key Rating Weaknesses

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

SMPL 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, SMPL, like other players in the automobile, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as revision 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. SMPL 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 SMPL's operation leads to thin operating margins, improvement has been witnessed in the margins which stood at 1.77% in FY18 vis-a-vis 3.22% in FY19. The improvement in the margins was on account of higher incentive received by SMPL 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.6.58 crore in FY as compared to Rs.3.20 crore in FY18.

Working capital intensive nature of operations

Inventory management is crucial for SMPL 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 35 days in FY19 (~16 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 remained satisfactory as average utilisation levels remained at around 66% during the last 12 months ended December, 2019.

Leveraged capital structure

The long term debt-equity and overall gearing ratio of the company stood at 0.06x & 4.51x as on March 31, 2019 vis-a-vis 0.12x & 5.14x as on March 31, 2018. Total indebtedness of the company as reflected by the TOL/TNW though improved from 7.80x in as on March 31, 2018 to 4.92x as on March 31, 2019 remained moderate. The improvement was mainly on account of healthy accretion of profit to net worth during 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:

Liquidity - Adequate

The company has generated sufficient cash accrual of around Rs.6.58 Crore in FY19 as against repayment of Rs.0.60 Crore. The company is expected to generate steady cash accrual over the near medium term against negligible scheduled repayment obligation (Rs.0.54 crore in FY20 and 0.56 crore in FY21 respectively). The Company's average utilisation of its bank lines was satisfactory, at around 66 per cent over the 12 months ended December 2019. Efficient management of the working capital coupled with steady cash generation has led to satisfactory utilization of bank limit. Unutilized limits add to liquidity cushion for the company and will support the liquidity over the medium term.

About the Company

S.G.S Motors Private Limited (SMPL) was incorporated in the year 2012 under the guidance of Mr. Sharad Kumar Sanghi who has over five decades of experience in operating vehicle showrooms and service stations. The company took over the business activities of M/s S.G. Motors (partnership firm) which was established in 1989 and was engaged in dealership of commercial vehicles of Tata Motors Ltd. Presently, SMPL is the authorised dealer of TML's commercial vehicles in Madhya Pradesh with 7 showrooms, including a ‘3S’ in Gwalior and sales points in other locations such as Basant Vihar, Morena, Shivpuri, Datia, Bhind and Sheopur.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-18	31-03-19
	Audited	Audited
Total Operating Income	434.48	416.42
EBITDA	7.69	13.40
PAT	2.64	5.79
Total Debt	63.31	71.97
Tangible Net worth	12.34	17.84
EBITDA Margin (%)	1.77	3.22

PAT Margin (%)	0.61	1.39
Overall Gearing Ratio (x)	5.14	4.51

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by India Ratings and Research Pvt Ltd vide press release dated December 9, 2019 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	30.00*	IVR BBB-/Stable	-	-	-

* *ODBD is sublimit of CC to the extent of Rs.2 crore*

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Smriti Jetly	Name: Mr. Avik Podder
Tel: (011) 24611910	Tel: (033) 46022266
Email: sjetly@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

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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	-	-	-	30.00*	IVR BBB-/Stable

* *ODBD is sublimit of CC to the extent of Rs.2 crore*