Press Release

Shree Cars Pvt Ltd (SCPL)

September 14, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities- Cash Credit	3.00	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned
2	Long Term Bank Facilities- Electronic Dealer Financing (eDFS)	22.00	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned
3.	Long Term Bank Facilities- Term Loan	2.40	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned
	Total	**27.40 (Rupees twenty seven crore and forty lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shree Cars Pvt Ltd (SCPL) draws strength from experience of the promoters with a long track record in the automobile dealership segment and authorized dealership of Honda Cars India Ltd (HCIL). However, these rating strengths are constrained by its inherently low margin nature of automobile dealership business with non-existence of bargaining power and pricing constraints, cyclical nature of the auto industry and dependence on the fortunes of HCIL. Further, the ratings also consider its working capital intensive nature of business leading to leveraged capital structure, weak financial performance in FY19 and in FY20(Prov.) marked by decline in operating income and moderate debt protection metrics.

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 ~95% on a sustained basis
- Improvement in capital structure and debt protection metrics with increase in interest coverage ratio to above 2.0x

Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Withdrawal of subordinated unsecured loan and/or deterioration in overall gearing to over 5x and interest coverage to below 1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of the promoters**

SCPL belongs to the Kedia group of companies whose flagship company, Shree Automotive Private Limitd (SAPL) hasbeen engaged in the automobile dealership business since 2000. SAPL is an authorized dealer of Ashok LeylandLimited (ALL) and Mahindra and Mahindra Limited and has a vide diversified customer base. The promoter of the company,Mr. Sharad Kedia prior to setting up SAPL, had been engaged with automotive companies like GNB Motors, AIE Ltdwhich were dealers of ALL products. He has an experience of more than three decades in Automobile Industry andheld prestigious positions in the past like Chairman of Motor Industry Association. He is supported by his two sons,Mr. Saurabh Kedia (an MBA from IIM Bangalore) and Mr. Abhishek Kedia. Mr. Saurabh Kedia has also held theprestigious position of Treasurer of Federation of Automobile Dealers Associations of India.

- **Authorized dealer of HCIL**

SCPL is an authorized dealer of HCIL, who are the leading manufacturer of passenger cars in India. The company is further aggressively tapping the market by the launch of new models like All New Amaze, All new CR-V and Civic in FY19. It aims to expand its volumes in the country and follow the strategy to enter new markets. The launch of the new vehicles and wide acceptability of the Sports Utility Vehicle (SUV) like BR-V and WR-V, City would be positive for the SCPL in the future. HCIL has a strong sales and distribution network in various cities spread across the country.

B. Key Rating Weaknesses

- **Linked to the fortunes of Honda Cars India Limited (HCIL)**

SCPL being an authorized dealer of HCIL and 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 HCIL'svehicles in the market and their ability to launch new products as per the market dynamics. Further, SCPL, 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.

- **Weak financial performance in FY19 and FY20 marked by decline in operating income and leveraged capital structure coupled with moderate debt protection metrics**

SCPL's operating income declined marginally from Rs.121.96 crore in FY18 to Rs.117.54 crore in FY19. It further decline to Rs.99.26 crore in FY20 provisional. The decline in operating income was due to decline in number of vehicles sold in FY19 and FY20. The overall gearing ratio of the company remained high during the period FY17-FY19 and deteriorated to7.85x as on Mar.31, 2019 vis-a-vis 7.31x as on March 31, 2018 owing to higher working capital utilisation and low net worth base. However, as per FY20 (provisional), overall gearing of SCPL has improved to 4.38x on account of scheduled repayment of term loan and lower utilisation of bank borrowings. Total indebtedness of the company as reflected by the TOL/TNW stood at 5.97x as on March 31, 2020 (Prov.).Interest coverage ratio also declined gradually from 2.04x in FY18 to 1.41x inFY20 (provisional) driven by lower EBITDA level and higher interest cost.

- **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. SCPL 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. The trading nature of SCPL's operation leads to thin operating margins. The EBITDA margin has improved marginally in FY19 to 4.26% from 4.21% in FY18 on account of higher incentive received by SCPL from HCIL (the incentives received have been adjusted with the purchasing price of vehicles). However, as per provisional FY20, margins have declined marginally to 4.07% on account of higher increase in operating expenses.

- **Working capital intensive nature of operations**

Inventory management is crucial for SCPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. 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 46 days in FY19 (~50 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.The working capital utilisation remained high at ~95% during the 12 months period ended July 31, 2020.

- **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 Service Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Weak

The liquidity position of the company is expected to remain weak in the near term due to subdued economic scenario having negative impact on the automobile sector and its tightly matched accruals as against its debt repayment obligations. Further, the Company's average maximum utilisation of its bank lines was high, at ~95 per cent over the 12 months ended July 2020 indicating a limited liquidity buffer.The company had generated cash accrual of around Rs.1.18 Cr in FY20 (Prov.) as against repayment of Rs.0.84 Cr.

About the Company

Shree Cars Private Limited (SCPL) was incorporated on December 2013 by Mr. Sharad Kumar Kedia and his two sons Mr. Saurabh Kedia and Mr. Abhishek Kedia based in Kolkata and is part of Kedia group of companies. The flagship company of the group is Shree Automotive Private Limited (SAPL) which is an authorized dealer of Ashok Leyland Limited for Commercial Vehicle (CVs), of Mahindra and Mahindra Limited (M&M Ltd) for LCVs and Passengers Vehicle (PVs) and Case New Holland Construction Equipment India Pvt Ltd (CNH) across various territories and districts of West Bengal. SCPL is an authorized dealer of cars manufactured by Honda Cars (India) Limited (HCIL), for various districts of West Bengal. The company started its operations from September 2014 and is currently running a showroom at Rajarhat and two workshops at Kalikapur and Rajarhat.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	117.54	99.26
EBITDA	5.01	4.04
PAT	0.67	0.08
Total Debt	30.16	20.54
Tangible Net worth	3.84	4.69
EBITDA Margin (%)	4.26	4.07
PAT Margin (%)	0.57	0.08
Overall Gearing Ratio (x)	7.85	4.38

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CARE has moved the rating of SCPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 25, 2020.

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)**	**Rating**	**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	3.00	IVR BB/ Stable Outlook	-	-	-	-
2.	eDFS	Long Term	22.00	IVR BB/ Stable Outlook	-	-	-	-
3.	Term Loan	Long Term	2.40	IVR BB/ Stable Outlook	-	-	-	-

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. Nidhi Sukhani Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

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.

information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term BankFacilities- Cash Credit	-	-	-	3.00	IVR BB/ Stable Outlook
Long Term Bank Facilities- eDFS	-	-	-	22.00	IVR BB/ Stable Outlook
Long Term Bank Facilities- Term Loan	-	-	March 2022	2.40	IVR BB/ Stable Outlook
Total				**27.40**	