



Press Release

TR Sawhney Motors Private Limited
May 22, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Bank Facilities- Long Term	70.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
2	Bank Facilities- Short Term	119.00	IVR A2 (IVR A Two)	Assigned
3	Proposed Bank Facilities-Long Term/ Short Term	11.00	IVR BBB+/Stable Outlook/ IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Assigned
	Total	200.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of TR Sawhney Motors Private Limited derives comfort from extensive industry experience of its promoters, established market position in private car distributorship in Delhi/NCR, stable financial performance and moderately leveraged capital structure. However, these rating strengths are partially offset by dependence of its fortunes on Maruti Suzuki India Ltd (MSIL) being its authorised dealer, inherent low margin nature of its business, non-existence of bargaining power and pricing constraints. The rating also considers its working capital intensive nature of operations and 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 the capital structure and debt protection metrics
- Improvement in liquidity with improvement in working capital management



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Downward Factors:

- Dip in operating income and/or cash accrual impacting the debt protection metrics
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables impacting the liquidity
- Deterioration in overall gearing to over 2x and interest coverage to below 1.2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of the promoters**

The promoters of the group, Mr. Sanjiv Sawhney and Mr. Rajiv Sawhney have been in the business of auto dealership for over two decades.

- **Established market position in car distributorship in Delhi/NCR**

The TRS group has an established presence as authorized dealer for Maruti Suzuki India Ltd. passenger vehicle, spare parts and services market in Delhi/NCR. With a track record of over two decades, the group has established itself as one of the largest dealers of MSIL in NCR. The group derives 93.06% revenue from sale of passenger vehicle, 3.93% from sale of spare parts and rest from services rendered in FY19.

- **Stable financial performance**

On a consolidated basis, the operating income of the group witnessed an erratic trend over the last three years; it was moderated from Rs. 1017.38 crore in FY17 to Rs. 1000.28 in FY18 mainly due to reduction in number of passenger vehicle sold from TR Sawhney Motors Pvt Ltd also in sales of spare parts. Since, Maruti Suzuki India Limited (MSIL) transferred the Ciaz model from Maruti Arena to Maruti Nexa in FY18, the revenue booked from sales of Ciaz model was shown in the books of TRSAPL instead of TRSMPL. Also in July 2017 GST was introduced which resulted in increase in tax liability from existing VAT of 14% to GST of 28%. However it increased by ~12% y-o-y to ~Rs.1119.72 crore in FY19 driven by increase in sales of vehicle. The group has achieved the operating revenue of Rs. 800.53 crore for 9 months ending December, 2019.



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On a standalone basis, the operating income of the company witnessed an erratic trend over the last three years; it was moderated from Rs. 855.93 crore in FY17 to Rs. 729.84 crore in FY18 mainly due to reduction in number of passenger vehicle sold also in sales of spare parts. Further, it was increased to Rs. 773.73 in FY19 driven by increase in revenue from service stations. During FY19, the company has sold 17,192 units of passenger vehicles as compared to 16,202 units in FY18. Despite decrease in unit sales the company witnessed substantial growth of ~6% in its total operating income in FY19 largely on account of increase in sales of spare parts and revenue from service workshop. The company has achieved the operating revenue of Rs. 553.01 crore for 9 months ending December, 2019.

Moderately Leveraged capital structure

On a consolidated basis, the group has a moderately leveraged capital structure mainly on account of its high working capital borrowings to fund its working capital requirements. The consolidated net worth of the group remained at Rs.175.99 crore. The long debt-equity and overall gearing ratio of the group stood at 0.19x & 1.44x as on Mar.31, 2019 vis-a-vis 0.22x & 1.61x as on March 31, 2018. Total indebtedness of the group as reflected by the TOL/TNW also improved from 1.82x in as on March 31, 2018 to 1.78x as on March 31, 2019. The improvement was mainly on account of healthy accretion of profit to net worth during FY19.

On a standalone basis, the long term debt-equity and overall gearing ratio of the company stood at 0.08x & 1.10x as on Mar.31, 2019 vis-a-vis 0.10x & 1.19x as on March 31, 2018. Total indebtedness of the company as reflected by the TOL/TNW remained stagnant at 1.36x as on March 31, 2019. The improvement was mainly on account of healthy accretion of profit to net worth during FY19.

Key Rating Weakness:

- **Linked to the fortunes of MSIL**

TRS group being an authorized dealer of MISL 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 MISL's vehicles in the market and their ability to launch new products as per the market dynamics. Further, TRS



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group, 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. TRS group 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 TRSMPL's operation leads to thin operating margins; moderation has been witnessed in the margins which stood at 3.96% in FY18 vis-a-vis 3.86% in FY19.

- **Working capital intensive nature of operations**

Inventory management is crucial for TRS group 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. Effective management of working capital remains a key rating monitorable.

- **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: For arriving at the ratings, INFOMERICS analytical team has combined the financials for FY16-FY19 and projections for FY20-FY22 of TRS Sawhney Automobiles Private Limited and TR Sawhney Motors Private Limited and commonly



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referred as TRS group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The group has generated sufficient cash accrual of around Rs.27.45 Cr in FY19 as against repayment of Rs.2.70 Cr. The group has sufficient gearing headroom to raise additional debt for its capex and is expected to generate steady cash accrual (Rs 15.06 crore in FY20 and Rs. 16.35 crore in FY21 respectively) over the near medium term against scheduled repayment obligation (Rs.2.57 crore in FY20 and 4.10 crore in FY21 respectively). The group's average utilisation of its bank lines was high, at around 96 per cent over the 12 months ended March 2020.

On standalone basis, The Company has generated sufficient cash accrual of around Rs.7.31 Cr as against debt repayment of Rs. 1.74 crore in FY19. The company has sufficient gearing headroom to raise additional debt for its capex and is expected to generate steady cash accrual (Rs 6.02 crore in FY20 and Rs. 6.64 crore in FY21 respectively) over the near medium term against scheduled repayment obligation (Rs. 1.91 crore in FY20 and Rs. 2.16 crore in FY21). The Company's average utilisation of its bank lines was satisfactory, at around 97 per cent over the 12 months ended March 2020.

About the Company

T.R Sawhney Motors Pvt Ltd (TRSMPL) was incorporated in the year 1993 by Late Mr. T.R. Sawhney along with his sons Mr. Sanjiv Sawhney and Mr. Rajiv Kumar Sawhney. Presently, TRSMPL is the authorised dealer of Maruti Suzuki's Arena passenger vehicles in Delhi/ NCR with 11 showrooms locations such as Wazirabad, Rohini, Pitampura Etc. The company also have 7 service stations across Delhi/NCR and 6 True Value showroom in Gurgaon. TR Sawhney Motors Pvt Ltd is part of TRS group along with TR Sawhney Automobiles Pvt Ltd. The group has total 16 showrooms, 10 service stations and 7 true value dealership spread across Delhi/NCR. Most of the showrooms are of 3S format.



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Financials (Consolidated):

For the year ended* As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	1000.28	1119.72
EBITDA	52.25	59.91
PAT	22.55	21.53
Total Debt	258.71	252.85
Tangible Net worth	160.98	175.99
EBITDA Margin (%)	5.22	5.35
PAT Margin (%)	2.25	1.94
Overall Gearing Ratio (x)^	1.61	1.44

*classification as per Infomerics standard

Financials (Standalone):

For the year ended* As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	729.84	773.73
EBITDA	28.90	29.84
PAT	6.56	4.23
Total Debt	170.85	163.29
Tangible Net worth	143.36	148.05
EBITDA Margin (%)	3.96	3.86
PAT Margin (%)	0.90	0.57
Overall Gearing Ratio (x)^	1.19	1.10

*classification as per Infomerics standard

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)	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	47.00	IVR	-	-	-



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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
		Term		BBB+/Stable Outlook			
2.	Term Loan	Long Term	8.00	IVR BBB+/Stable Outlook	-	-	-
3.	Inventory Funding	Short Term	56.00	IVR A2	-	-	-
4.	Lease Car Funding	Long Term	8.00	IVR BBB+/Stable Outlook			
5.	WCDL	Short Term	13.00	IVR A2			
6.	LAP	Long Term	7.00	IVR BBB+/Stable Outlook			
7.	E-DFS	Short Term	50.00	IVR A2			
8.	Proposed Facility	Long Term/Short Term	11.00	IVR BBB+/Stable Outlook/ IVR A2			

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



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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.

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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	-	-	-	47.00	IVR BBB+/Stable
Long Term Bank Facilities – Term Loan	-	-	-	8.00	IVR BBB+/ Stable
Short Term Bank Facilities – Inventory Funding	-	-	-	56.00	IVR A2
Long Term Bank Facilities – Lease Car Funding	-	-	-	8.00	IVR BBB+/ Stable
Short Term Bank Facilities – WCDL	-	-	-	13.00	IVR A2
Long Term Bank Facilities – LAP	-	-	-	7.00	IVR BBB+/ Stable
Short Term Bank Facilities – EDFs	-	-	-	50.00	IVR A2
Proposed Long Term/Short Facility	-	-	-	11.00	IVR BBB+/ Stable/ IVR A2