

Bharat Motors Limited

August 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB-; Stable (Double B Minus; Outlook: Stable) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB-; Stable' [Double B Minus; Outlook: Stable] assigned to the bank facilities of Bharat Motors Limited (BML) with immediate effect. The above action has been taken at the request of BML and 'No Objection Certificate'/No Dues Certificate' (as applicable) received from the banks that have extended the facilities rated by CARE.

The rating assigned to the bank facilities are constrained by weak capital structure and debt protection metrics, dependency on fortunes of principal with low bargaining power, working capital intensive nature of operations and cyclical nature of auto industry. The ratings, however, derive strength from experienced promoters with long track record of operations, diversified product portfolio with multiple dealerships and wide distribution network in Odisha, long established relationship with most principals, moderate financial performance in FY21 (refers to the period April 1 to March 31).

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak capital structure and debt protection metrics

The overall gearing ratio and Total debt/GCA of BML deteriorated from 1.29x and 13.50x as on March 31, 2019 to 1.69x and 19.87x as on March 31, 2020 respectively due to increase in debt level in the form of term loan coupled with decline in cash profits in FY20. The overall gearing has marginally deteriorated to 1.73x as on March 31, 2021 (Prov.) and TD/GCA has significantly deteriorated to 33.21x in FY21 (Prov.) on account of increase in debt levels due to availing of Covid loans of Rs. 5.10 crore coupled with decline in cash profits due to increase in payment of prior period entry tax.

Dependency on fortunes of principal with low bargaining power

The company lacks bargaining power due to its dependence on large principals that set policies, targets and link incentive-based income to satisfactory compliance of such policies. The financial risk profile of the company has a high degree of correlation with the performance of OEM's vehicles in the market and their ability to launch new products. Further, any reputational damage to the OEM would impact the topline of dealerships.

Working capital intensive nature of operations

The company's operating cycle elongated marginally from 48 days in FY19 to 56 days in FY20 primarily on the back of increase in inventory period which increased from 61 days in FY19 to 66 days in FY20. Instances of building up inventory also take place during the year end in order to avail various incentives launched by OEMs in order to meet year end targets. The collection period and creditor's period stood stable at 28 days and 39 days respectively in FY20 (26 days and 39 days respectively in FY19). The operating cycle has further increased to 68 days in FY21 mainly on account increase in average collection period to 38 days.

Cyclical nature of 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 group thus faces significant risks associated with the dynamics of the auto industry.

Key Rating Strengths

Experienced promoters with long track record of operations

Bharat group is managed by Mr. Om Prakash Didwania along with his brother Mr. Jay Prakash Didwania. Both the promoters have long experience in auto trade and transportation for more than three decades. The promoters are ably supported by a team of experienced professionals. The Bharat group is one of the largest automobile dealers in Odisha with presence in two-wheeler, three-wheeler, four-wheeler and commercial vehicle segments. Due to their long-standing experience in automobile dealership business, they have been able to increase their dealership network across Odisha.

Diversified product portfolio with multiple dealerships and wide distribution network in Odisha

With long track record and healthy principal relationships, BML has created a portfolio of products that suits the requirement of diverse segment users. Their portfolio includes passenger vehicles, two-wheeler and sales of spare parts. The geographical reach of the Bharat group is in all major towns of Odisha namely Bhubaneswar, Angul, Balasore, Berhampur, Sambalpur, Rourkela, Keonjhar, Barbil and Cuttack thereby providing a satisfactory outreach within the state. Majority of the showrooms of the Bharat group are owned thereby leading to saving in rental expense.

Long established relationship with most principals

Currently, BML has the dealership of Hero Moto Corp Ltd. in 2W segment along with sale of spare parts and Volkswagen India in PV segment and has a long-standing relationship with them. BML has been associated with the aforementioned OEMs for more than a decade now. In the past, BML has also been the dealer of General Motors (PV), Piaggio (3W), Vespa (2W) and Maxxis Tyres. BML discontinued the dealership in view of lack of vehicle sales and less support from principal in terms of advertisement, etc. The company has two showroom of Hero Motor Corp Ltd and one showroom for Volkswagen.

Moderate financial performance in FY21

The total operating income (TOI) of BML registered a y-o-y decline of 13.20% to Rs.120.35 crore in FY20 in view of decline in vehicle sales. However, PBILDT margin was stable at 4.25% in FY20 (4.54% in FY19). Interest coverage ratio however moderated from 1.63x in FY19 to 1.31x in FY20 on the back of muted PBILDT level. In FY20, the company reported GCA of Rs.2.13 crore vis-à-vis debt repayment of Rs.1.95 crore. In H1FY20, the company reported PBT of Rs.0.20 crore on total operating income of Rs.41.24 crore.

The TOI further declined by 18.37% to Rs.98.47 crore in FY21 (Prov.) on account of impact of Covid-19 on the business operations of the company in H1FY21. However, PBILDT margin has improved on account of higher spare parts sales and higher sale of services which command higher margin vis-à-vis vehicle sales. This apart, the company has reported decline in PAT and GCA from Rs 0.49 crore and Rs. 2.13 crore in FY20 to Rs. 0.24 crore and Rs. 1.32 crore in view of increase in payment of prior period entry tax in FY21. Further, interest coverage ratio improved from 1.57x in FY21 (Prov.) to 1.73x in FY20.

Liquidity: Stretched

The liquidity position of the company is stretched. However, the company was able to timely service its debt repayment obligations from the cash profits earned during FY21 coupled with Guaranteed Emergency Credit Line (GECL) of Rs 5.10 crore availed by the company in FY21.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

Bharat Motors Ltd. (BML) originally established in 1980 as a partnership firm by Mr. Om Prakash Didwania and was later reconstituted as a closely held limited company in 1995. BML is engaged in dealership of Hero MotorCorp (2W), Vespa (2W), Chevrolet (4W) and Volkswagen (4W).

Brief Financials (Rs. crore)- Standalone	FY20 (A)	FY21 (Prov.)
Total operating income	120.63	98.47
PBILDT	6.15	6.15
PAT	0.49	0.24
Overall gearing (times)	1.69	1.73
Interest coverage (times)	1.57	1.73

A: Audited, Prov.: Provisional

Status of non-cooperation with previous CRA: CRISIL has placed the ratings of BML under 'Issuer Not Cooperating' category vide Press release dated September 22, 2020.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Bank Overdraft	-	-	-	0.00	Withdrawn
Fund-based - LT-Vendor financing	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB-; Stable (07-Jan-21) 2)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)
2.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BB-; Stable (07-Jan-21) 2)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)
3.	Fund-based - LT-Vendor financing	LT	-	-	-	1)CARE BB-; Stable (07-Jan-21) 2)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Dec-18)
5.	Fund-based - LT-Vendor financing	LT	-	-	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Vendor financing	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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