

Bharat Motors Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	6.57 (reduced from 10.57)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total facilities	6.57 (Rs. Six crore and fifty seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Bharat Motors Limited (BML) are constrained due to its dependency on fortunes of principal with low bargaining power, working capital intensive nature of operations, cyclical nature of auto industry and weak capital structure and debt protection metrics. The rating, however, derives 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 and moderate financial performance in FY20 (refers to the period April 1 to March 31) & H1FY21.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations and sustenance of operating margins at 5-6%
- Improvement in capital structure below 1.5x and Total debt/GCA below 13x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations and decline in operating margins below 3%
- Discontinuance of dealership with any of the existing OEM
- Deterioration in capital structure beyond 3x and Total Debt/GCA beyond 25x
- Worsening of operating cycle beyond 100 days

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.

As on September 30, 2020 the overall gearing stood stable at 1.68x. However, TD/GCA of the company deteriorated to 22.18x on the back of decline in GCA due to the impact of COVID-19.

Dependency on fortunes of principal with low bargaining power

The company 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 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).

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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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 vast 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 FY20 & H1FY21

The total operating income 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.

Industry Outlook

In 8MFY21, the passenger vehicle (PV) segment recorded a domestic wholesales of 14,05,519 units (-21.5% YoY) and 2W segment recorded a domestic wholesales of 96,37,871 units (-25.1% YoY).

The pace of growth in domestic wholesales of PV is expected to sequentially taper in December 2020, but still be higher than December 2019. Q4-FY21 is expected to witness lower demand for passenger vehicles sequentially as the pent up demand and festivities would end. Also, January 2021 onwards, OEMs are expected to hike prices for their models, to offset the rise in the input and commodity prices, which could negatively impact consumer demand. Domestic wholesales of passenger vehicles are expected to decline 9 to 14% YoY in FY21. Since the festive season of November 2020, didn't bring much joy to the two wheeler manufacturers, outlook for Q3-FY21 has been lowered. A further sequential fall in domestic wholesales is expected in Q4-FY21. A domestic wholesale of two wheelers is expected to decline 13 to 18% YoY in FY21.

Liquidity: Stretched

There were delays in debt servicing of a term loan and overdrawals in the CC account on few occasions which are regularized within next two days in one of the group company, Bharat Carriers Limited. As a result, the credit profile of the group has weakened. Liquidity of BML is marked by lower gross cash accruals of Rs.2.13 crore vis-à-vis debt repayment obligations of Rs.1.95 crore in FY20 and moderate cash balance of Rs.0.36 crore as on Mar 31, 2020 and Rs.0.07 crore as on Nov 30, 2020. The company's bank limits are utilized on an average to the extent of ~40% in last 12 months ended October, 2020. The company had availed moratorium in inventory funding for the month March 2020 till May 2020 and the payment for the same has been made. The company has not availed interest deferment on the overdraft facility.

Analytical approach: Standalone.

Applicable Criteria

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

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

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

[Rating Methodology - Wholesale Trading](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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 and Spare Parts) and Volkswagen (4W).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	138.65	120.35
PBILDT	6.30	5.12
PAT	0.64	0.49
Overall gearing (times)	1.29	1.69
Interest coverage (times)	1.63	1.31

A: Audited

Status of non-cooperation with previous CRA: CRISIL has reaffirmed the long term rating under “Issuer Not Cooperating” category vide press release dated Sep 22, 2020

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Refer Annexure 3

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	-	-	Mar 2028	1.57	CARE BB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	0.50	CARE BB-; Stable
Fund-based - LT-Vendor financing	-	-	-	4.50	CARE BB-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1.57	CARE BB-; Stable	1)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)	1)CARE BBB-; Stable (12-Jun-17)
2.	Fund-based - LT-Bank Overdraft	LT	0.50	CARE BB-; Stable	1)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)	1)CARE BBB-; Stable (12-Jun-17)
3.	Fund-based - LT-Vendor financing	LT	4.50	CARE BB-; Stable	1)CARE BB-; Stable (13-Nov-20)	1)CARE BB+; Stable (08-Jan-20)	1)CARE BB+; Stable (07-Dec-18)	1)CARE BBB-; Stable (12-Jun-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Dec-18)	-

Annexure 3: 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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