

## Sengupta Motors

October 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	8.90 (Enhanced from 8.70)	CARE BB-; Stable	Reaffirmed
Short Term Bank Facilities	3.10 (Reduced from 3.30)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Sengupta Motors (SGM) continues to be constrained by its proprietorship nature of constitution, short track record with small scale of operation, linkage to the fortunes of Bajaj Auto Limited (Bajaj), limited profitability associated with dealership business, renewal based dealership agreement, pricing constraints and margin pressure arising out of competition from various auto dealers in the market and moderate capital structure and debt coverage indicators. The ratings, however, continue to derive comfort from experienced proprietor, authorized dealership agreement with Bajaj Auto Limited and integrated nature of business of the entity.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in scale of operation (turnover > ₹100 crore) with improvement in its operating margin (above 4%) on a sustained basis.
- Improvement in capital structure (overall gearing ratio below 1.00x) and reduced reliance on external borrowings to fund its large working capital requirements on a sustained basis.

#### Negative factors

- Any sizeable decline in scale of operation (turnover < ₹35 crore) with further deterioration in operating margin from current level on a sustained basis.
- Deterioration in overall gearing ratio beyond 2.50x and increased reliance on external borrowings to fund its large working capital requirements on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

The Stable outlook on the long-term rating reflects that SGM will continue to benefit from its association with Bajaj which will help it to sustain its total operating income (TOI), margins and financial risk profile going ahead.

### Detailed description of key rating drivers:

#### Key weaknesses

**Short track record with small scale of operation:** SGM is an authorised dealer of Bajaj Auto Limited, started its commercial operation from April 2017 onwards. Therefore, the firm has short track record of around 7 years of operations. The total operating income increased from Rs. 80.50 crore in FY23 to Rs. 97.05 crore in FY24 showing growth of 20.82% majorly on the back of increase in volumes from 8,667 in FY23 to 10,382 in FY24. However, the overall scale continues to be small.

**Proprietorship nature of constitution:** SGM, being a proprietorship firm, is exposed to inherent risk of withdrawal of capital by the proprietor, restricted access to funding and risk of dissolution on account of poor succession planning. Furthermore, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

**Limited profitability associated with dealership business:** Automobile dealership is a volume driven business as margins on vehicles and spares are controlled by automobile manufacturers. Accordingly, due to limited pricing power of the firm profitability levels and margins of SGM is estimated to remain range bound in the future periods. Hence the firm's growth prospects depend on the ability to increase its volume momentum and capitalize on sale of spares and services fetching higher margin. The

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

profitability margins of the entity remained low marked by PBILDT margin of 1.99% (FY23: 2.38%) and PAT margin that has sustained at 0.65% in FY24.

**Pricing constraints and margin pressure arising out of competition from various auto dealers in the market:**

Bajaj has currently one dealer for each district thus eliminating the scope of competition from other Bajaj dealers. With the sole authorized dealership of Bajaj in Agartala the bargaining power of SGM with customers is high. However, the firm is exposed to external competition from other dealers of companies such as Suzuki, Yamaha, TVS, Honda, etc. In order to capture the market share, the auto dealers generally have to offer better buying terms like providing credit period or allowing discounts on purchases. Such discount creates margin pressure and negatively impact the earning capacity of the firm.

**Linkage to the fortunes of Bajaj Auto Limited along with renewal-based dealership agreement:** SGM, being an authorised dealer of Bajaj, deals exclusively with Bajaj two wheelers, spares parts and accessories. Accordingly, its fortunes are linked to the performance of Bajaj's products. As such, any shift in customer preference and brand equity might negatively impact SGM. The dealership agreement between Bajaj and SGM which is valid for three years which, as per the management, has been renewed. Moreover, the agreement is subject to automatic renewal for three years unless it is terminated due to breach of contract/fraud by the firm or it's going into liquidation. Going forward, the ability of the firm to meet the expectation of the principal i.e., Bajaj and regular renewal of the dealership agreement with the principal will be critical for the entity.

**Working capital intensive nature of operations and moderate capital structure and debt coverage indicators:** The business of automobile dealership is having inherent high working capital intensity due to high inventory holding requirements. The firm must maintain the fixed level of inventory for display and to guard against supply shortages. Furthermore, payment must be made in advance to Bajaj Auto resulting in higher working capital requirements.

**Key strengths**

**Experienced proprietor albeit lack of experience in auto dealership business:** Mr Avik Sengupta (Proprietor) has around a decade of business experience in construction industry through his partnership firm 'M/s Chandan Sengupta'. Mr Avik Sengupta looks after the day-to-day operations of the firm supported by experienced professionals.

**Authorized dealership agreement with Bajaj Auto Limited:** SGM enjoys the leverage of being an authorized dealer of Bajaj, which is one of the largest two and three wheelers manufacturers in India.

**Integrated nature of business:** SGM also provides authorized after sales service and deals in original accessories & spare parts apart from selling two wheelers by virtue of being a 3-S authorized dealer of Bajaj. Owning authorized service centre helps the firm to tap a larger client base who prefers to purchase two wheelers from dealers having own authorized service centre to avoid hassles in case of breakdown and requirement of service.

**Liquidity:** Adequate

Liquidity position of the entity is adequate as characterised by cash accruals of Rs. 0.70 crore against which the entity had a long-term debt obligation of Rs. 0.40 crore in FY24. Going forward, the entity has a long-term obligation of Rs. 0.17 crore in FY25. Furthermore, SGM had free cash balance of Rs. 2.44 crore as on March 31, 2024.

**Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Auto Dealer](#)

[Short Term Instruments](#)

**About the company and industry**

**Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	Auto Dealer

SGM was established as a proprietorship firm in October 2016 by Mr Avik Sengupta based out of Agartala, Tripura. SGM is an authorised dealer of Bajaj and deals exclusively with Bajaj two wheelers, its spares parts & accessories and after sales services (repair and refurbishment) for the district of Agartala, Tripura. The firm has commenced operations from April 2017 onwards and currently, it is operating through its six showrooms and three service centres.

Mr Avik Sengupta (Proprietor) has around a decade of business experience in construction industry through his partnership firm 'M/s Chandan Sengupta'. Mr Avik Sengupta looks after the day-to-day operations of the firm supported by experienced professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	80.50	97.05
PBILDT	1.91	1.93
PAT	0.55	0.63
Overall gearing (times)	1.15	1.40
Interest coverage (times)	1.81	2.00

A: Audited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	8.90	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	3.10	CARE A4

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	8.90	CARE BB-; Stable	-	1)CARE BB-; Stable (05-Oct-23)	1)CARE BB-; Stable (28-Nov-22)	1)CARE BB-; Stable (03-Feb-22)
2	Non-fund-based - ST-Bank Guarantee	ST	3.10	CARE A4	-	1)CARE A4 (05-Oct-23)	1)CARE A4 (28-Nov-22)	1)CARE A4 (03-Feb-22)

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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