

## Anand Motor Agencies limited

March 21, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	24.95 (enhanced from 20)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.00	CARE A3 (A Three)	Reaffirmed
<b>Total Facilities</b>	<b>27.95</b> <b>(Rs Twenty seven crore and ninety five lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Anand Motor Agencies Limited (AMAL) continues to factor in the strength from its experienced promoters, established track record of operations in Auto Industry, continuous growth in scale of operations and authorized dealership of Maruti Suzuki India Limited which is a dominant player in the passenger car market in India.

The ratings, however, are pulled down by the competition, its leveraged capital structure, working capital intensive nature of operation and the limited bargaining power with original equipment manufacturer (OEM).

Going forward, ability to increase the scale of operations with improvement in profitability margins and leverage position, and efficient working capital management shall remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Experienced Promoters*

The overall management of AMAL is looked after by Mr. Jitendra Kumar Agarwalla (Managing Director) who has an experience of around 45 years in the automobile dealership business. He commenced his career with dealership of commercial vehicles of Ashok Leyland. Subsequently in 1984, AMAL was awarded dealership of MSIL. Due to longstanding experience in the automobile dealership business and long association with MSIL, the promoter has been able to increase their dealership network. Mr. Jitendra Kumar Agarwalla is ably supported by his son Mr. Ashish Agarwalla who has experience of around 12 years in automobile dealership business.

##### *Established track record of operations*

AMAL is engaged in automobile dealership business for around 47 years and has a long standing association of 32 years with its principal MSIL. AMAL currently operates 5 3S (sales, service and spares) dealership outlets of MSIL (3 at Lucknow and one each at Bhabha and Balarampur). Moreover, the company also has presence in the pre-owned car segment through 2 true value outlets which are located within the existing showrooms (one each at Lucknow and Bhabha). AMAL has an integrated mode of operations, functioning in various verticals of automobile dealership business to provide one stop solution to its customers. It has service stations, spare parts distribution, and tie-ups for vehicle finance and insurance which provide the customer with complete solution at single point.

##### *Continuous growth in scale of operations*

AMAL's total operating income grew at 25.05% in FY17 to Rs 202.33 crore (PY: Rs 161.79 crore) mainly on account of strong 34.71% growth in its sales volume. AMAL sold 4065 passenger cars during FY17 as against 3843 passenger cars sold

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

during FY16. During past three financial years (FY15-FY17), AMAL generated around 85-89% of its total operating income from sale of cars, around 6-7% from sale of spares and 4-5% from servicing.

### Key Rating Weaknesses

#### ***Working capital intensive nature of operations***

Inventory management is crucial for AMAL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. AMAL receives inventory either against advances or on cash payments to its principal. The average inventory period of the company stood at 29 days in FY17 as against 32 days in FY16 due to faster liquidation of inventory. Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up marginal time, the average collection period of the company stood at 14 days in FY17. The credit period availed for spares stood at around 4 days in FY17.

#### ***Limited bargaining power with OEMs***

AMAL's business model is largely in the nature of trading wherein profitability margins are moderate. Moreover, dealers have less bargaining power over principal manufacturer. In order to capture the market share, the auto dealers' offers better buying terms like allowing discounts on purchases. Such discounts offered to customers create margin pressure.

#### ***Inherent competition and cyclical nature of the auto industry***

AMAL is exposed to competition from the products of other OEM's and dealers operating in the same region. Accordingly, AMAL has to resort to offering better buying terms like allowing discounts to capture the market share. Such discounts create margin pressure and negatively impact the earning capacity of the company. However, the company's long association with its clients, its established network helps it to sustain the competition and maintain its strong market position in the region. Furthermore, the auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. The company thus faces significant risks associated with such cyclical nature of the auto industry.

**Analytical approach:** Standalone

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's criteria on Short term ratings](#)

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

### About the Company

Anand Motor Agencies Ltd. (AMAL) was incorporated in October, 1969 as a private limited company and was converted into public limited company in August, 1980. The company was promoted by Shri A.P. Agarwalla and was subsequently taken over by his son Mr. Jitendra Kumar Agarwalla.

Initially AMAL was an authorised dealer of commercial vehicles of Ashok Leyland. In 1984 the company became an authorised dealer of passenger vehicles of Maruti Suzuki India Ltd. and is engaged in the sale of vehicles, spare parts and servicing of vehicles. Further In 2003, the company also became an authorised dealer of 'Maruti True Value' and started dealing in pre-owned cars at its true value outlet.

The company owns Five showrooms (3S - sales, service and spare-parts) with attached workshop in Uttar Pradesh (3 at Lucknow and one each at Bhabha and Balarampur) including the new and exclusive premium car showroom in Lucknow under MSIL's NEXA brand for selling premium Maruti cars like S-Cross and Baleno. Also, the company owns 2 True value outlet (one each at Lucknow and Bhabha)

AMAL deals in passenger vehicles (such as Alto, Swift, Dzire, Ciaz). The company derives majority of revenue (around 89 % in FY17) from vehicle sales while the balance is contributed from servicing, sale of spare parts.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	161.79	202.33
PBILDT	4.70	5.19
PAT	1.06	1.14
Overall gearing (times)	2.30	2.90
Interest coverage (times)	1.38	1.43

A: Audited

**Status of non-cooperation with previous CRA:** IND BB (Stable); Issuer not cooperating /IND A4+ (Issuer not cooperating) vide PR dated May 10, 2017).

**Any other information:** NA

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr Manek Narang

Tel: 011-45333233

Cell: 09810596225

Email: [manek.narang@careratings.com](mailto:manek.narang@careratings.com)

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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-Cash Credit	-	-	-	15.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A3
Fund-based - LT-Electronic Dealer Financing Scheme	-	-	-	8.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	1.95	CARE BBB-; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB- (06-Sep-16)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A3	-	1)CARE A3 (06-Sep-16)	-	-
3.	Fund-based - LT-Electronic Dealer Financing Scheme	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB- (06-Sep-16)	-	-
4.	Fund-based - LT-Term Loan	LT	1.95	CARE BBB-; Stable	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)