

Anand Motors Agencies Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	24.59 (reduced from 24.95)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	27.59 (Rs. Twenty seven crore and fifty nine lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings to the bank facilities of Anand Motor Agencies Limited (AMAL) continue 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 47 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 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) out of which 2 are NEXA showrooms. 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 25.97% in FY18 to Rs 256.74 crore (PY: Rs 203.81 crore) mainly on account of strong 15.33% growth in its sales volume to 4688 passenger cars during FY18 as against 4065 passenger cars during FY17. During past three financial years (FY16-FY18), 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.

The increase in sales volume in FY18 was mainly attributed to sales volume from new launches like Baleno and S-Cross and Ignis and also includes the growth in sales volume of pre-owned car segment on y-o-y basis.

Authorized dealer of Maruti Suzuki India Ltd. (dominant player in Indian passenger vehicle market)

AMAL is the authorized dealer of MSIL which has been the market leader in passenger car segment for two and half decades. MSIL offers a wide range of cars across different segments includes 15 brands and over 150 variants. MSIL has wide and established distribution network and a network of service centers across India which provides it a competitive advantage over its peers.

Financial Risk Profile

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

In FY18, the total income of the company increased to Rs 256.74 crore (PY: Rs 203.81 crore), however PBILDT margin slightly moderated to 3.11% (PY: 3.27%). Furthermore, PAT margin remained in the range of 0.55%-0.65% during past three financial years (FY16-FY18) mainly on account of trading nature of the business which is inherent to the automobile dealership business.

The capital structure of AMAL remained leveraged with an overall gearing of 3.09 times as on March 31, 2018 (PY: 2.90x) owing to higher CC utilization as on March 31, 2018 and lower net worth base. Further, debt coverage indicators remained moderated marked by total debt to GCA of 11.19 times as on March 31, 2018 (PY: 11.46 times). Majority of debt comprises of working capital borrowings of Rs 24.94 crore as on March 31, 2018 (PY: Rs 20.70 crore) to fund inventory which is inherent in the automobile dealership business and unsecured loans from promoters to the extent of Rs 7.37 crore (PY: 5.61 crore).

Liquidity

AMAL mainly relies on the working capital limit of Rs. 43 cr with average utilization of around 95% (for the period April, 2018 Feb., 2019). However, the firm had availed an Ad-hock limit of Rs.3 cr (for the period March 2018- May 2018) which was timely repaid.

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 i.e. MSIL. The average inventory period of the company stood at 28 days in FY18 as against 29 days in FY17. 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 13 days in FY18. The credit period availed for spares stood at around 5 days in FY18. The average working capital utilization levels of the company remained high at around 95% during the last 10 months ended March 2019.

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 a 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 (about 89 % in FY18) from vehicle sales while the balance is contributed from servicing, sale of spare parts.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	203.81	256.74
PBILDT	6.67	7.99
PAT	1.14	1.41
Overall gearing (times)	2.90	3.09
Interest coverage (times)	1.84	1.96

A: Audited

Status of non-cooperation with previous CRA: IND BB (Stable); Issuer not cooperating /IND A4+ (Issuer not cooperating) vide PR dated May 25, 2018).

Any other information: Not Applicable

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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	-	-	2026	1.59	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Mar-18)	1)CARE BBB-(06-Sep-16)	-
2.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A3	-	1)CARE A3 (21-Mar-18)	1)CARE A3 (06-Sep-16)	-
3.	Fund-based - LT-Electronic Dealer Financing Scheme	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Mar-18)	1)CARE BBB-(06-Sep-16)	-
4.	Fund-based - LT-Term Loan	LT	1.59	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Mar-18)	-	-

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