

## Chouhan Automobiles LLP

May 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	20.50	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	Assigned
<b>Total</b>	<b>20.50</b> <b>(Rupees Twenty crore and Fifty lakh only)</b>	-	

*Details of facilities in Annexure-1*

#### Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Chouhan Automobiles LLP (CALLP) is constrained by operations stabilization risk, limited profitability associated with dealership business, renewable based dealership agreement, working capital intensive nature of operations, pricing constraints and margin pressure arising out of competition from various auto dealers in the market and the firm's fortune is linked with Maruti Suzuki India Limited (MSIL). The rating, however, derives strength from experienced partners albeit lack of experience in auto dealership business and showroom equipped with modern advanced technology.

Going forward, the ability of the firm to achieve envisaged revenue and profit margins and efficient management of its working capital shall be the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

**Operations stabilization risk:** The firm has recently set up a showroom for selling of MSIL vehicles at Durg, Chhattisgarh. Being a new entrant in the industry, the firm faces intense competition from other dealers of companies such as Tata Motors, Mahindra & Mahindra, Honda, Hyundai etc. However, as MSIL has currently one dealer for each district thus eliminating the scope of competition from other MSIL dealers. Going forward, the ability of the firm to attract clients by providing better credit terms and better after sales services will be critical for the firm.

**Linkage to the fortunes of Maruti Suzuki India Limited:** The firm had already received a Letter of Intent (LOI) and also got in principle approval from Maruti Suzuki India Limited (MSIL) for its dealership business in Durg, Chhattisgarh. Since CALLP is going to be an authorized dealer of Maruti Suzuki India Limited (MSIL), it will deal exclusively with MSIL vehicles, spares parts and accessories. Accordingly, its fortunes will be linked to the performance of MSIL's products. As such, any shift in customer preference and brand equity will negatively impact CALLP.

**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 CALLP is estimated to remain on the lower side in the future periods. Hence the firm's growth prospects depend on the ability to increase its volume momentum and capitalize on the spares fetching higher margin and service segment.

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

**Renewal based dealership agreement:** The dealership agreement between MSIL and CALLP is going to have a renewal clause in a certain interval 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. MSIL and regular renewal of the dealership agreement with the principal will be critical for the firm.

**Working capital intensive nature of operations:** The business of automobile dealership is having inherent high working capital intensity due to high inventory holding requirements. The firm has to maintain the fixed level of inventory for display and to guard against supply shortages. Furthermore, MSIL demands payment in advance, resulting in higher working capital requirements.

**Pricing constraints and margin pressure arising out of competition from various auto dealers in the market:** MSIL has currently one dealer for each district thus eliminating the scope of competition from other MSIL dealers. With the sole authorized dealership of MSIL in Durg (Chhattisgarh) the bargaining power of CALLP with customers is high. However, the firm is exposed to external competition from other dealers of companies such as Tata Motors, Mahindra & Mahindra, Honda, Hyundai etc. In order to capture the market share, the auto dealers generally have to offer better buying terms like providing credit period or allowing discount on purchases. Such discount creates margin pressure and negatively impact the earning capacity of the firm.

#### **Key Rating Strengths**

**Experienced partners albeit lack of experience in auto dealership business:** The key partner, Mr. Ajay Chouhan has around two decades of experience in construction and real estate industry. Mr. Chouhan will look after the day to day operations of the firm supported by other partners who are also having long experience in real estate and construction industry. However, this is the first venture of the partners in auto dealership industry.

**Showroom equipped with modern advanced technology:** The firm has already set up an international level showroom "Maruti Suzuki ARENA" which has a sporty modern look and offers friendly and comfortable environment to the customers. Leveraging the power of digital technology the showroom of the firm serves and delight purchase experience, seamlessly from the digital space to physical showrooms. The customer can explore the entire product portfolio, through interactive product vision touch screens at the showroom. A dedicated personalization zone with car configurations enables customers to electronically personalize cars by a mix and match of accessories. Digital integration is the key differentiator of its showroom from other players.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

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

#### **About the Firm**

Bhilai (Chhattisgarh) based, Chouhan Automobiles LLP (CALLP) was established as a partnership firm in June 2017. The firm has already set up an international level showroom "Maruti Suzuki ARENA" which has sporty modern looks and offers a friendly and comfortable environment to the customers. Leveraging the power of digital technology the showroom of the firm serves and delight purchase experience, seamlessly from the digital space to physical showrooms. Digital integration is the key differentiator of its showroom from other players.

The firm operates through one sales outlets and two workshop (sales outlet at Rajnandgaon Bypass Road, Dung, Chhattisgarh; workshop one at GE Main Road, Raipur and the other along with the showroom) which offers spare parts &

after sales services (repair and refurbishment) for Maruti Suzuki vehicles. The firm has commenced operations from end of January 2018.

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

**Any other information:** Not Applicable

**Rating History (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.

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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	-	-	-	4.50	CARE B+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	3.00	CARE B+; Stable
Fund-based - LT-Electronic Dealer Financing Scheme	-	-	-	13.00	CARE B+; 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	4.50	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	3.00	CARE B+; Stable	-	-	-	-
3.	Fund-based - LT-Electronic Dealer Financing Scheme	LT	13.00	CARE B+; Stable	-	-	-	-

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