Reddy and Reddy Motors

July 17, 2020

Ratings:

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term Bank Facilities	10.10	**CARE C; ISSUER NOT COOPERATING* (Single C ISSUER NOT COOPERATING)**	**Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING on the basis of best available information**
Short-term Bank Facilities	1.00	**CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING)**	**Issuer not cooperating; Based on best available information**
Total	**11.10 (Rupees Eleven crore and Ten Lakhs only)**		

Details of instruments/facilities in Annexure-1

CARE had, vide its press release dated May 09, 2019, placed the rating(s) of Reddy and Reddy Motors (RRM) under the 'issuer non-cooperating' category as RRM had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. RRM continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated June 10, 2020, June 02, 2020, and May 22, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised as CARE was unable to undertake proper due-diligence for the entity. The ratings factor in constitution of the entity as a partnership concern, moderate small scale of operations with established track record, intense competition from the other OEM dealer, thin profitability margins, leveraged capital structure with weak debt coverage indicators, cyclical nature of industry and working capital intensive nature of operations. The rating also take cognizance of experienced and authorized dealer of Maruti Suzuki India Limited (MSIL).

Detailed description of the key rating drivers

At the time of last rating on May 09, 2019, the following were the rating strengths and weaknesses

Key Rating Weaknesses

Constitution of the entity as a partnership concern

Constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency which can affect its capital structure. This was reflected in the balance sheet during FY16 when the capital to the tune of Rs. 10 lakh was withdrawn to meet personal contingency. Further, partnership concern has restricted access to external borrowing which limits their growth opportunities to some extent.

Moderate scale of operations with established track record

While the firm continues to be relatively small in scale, the total operating income has exhibited a constant growth. The turnover of the firm grew by around 14% from Rs 63.73 crore in FY15 to Rs 72.97 crore in FY16. The firm along with its associate firm NRRM are the sole dealers for MSIL in West Godavari District in Andhra Pradesh.

Intense competition from other OEM dealers

While the firms (along with its associate), are the exclusive dealers for MSIL in West Godavari district of Andhra Pradesh there does exist intense competition from dealers of other OEMs, especially due to proximity of the region to Vijayawada, where dealers of most other OEMs such as Tata Motors, Hyundai, Mahindra, Toyota etc. are also located.

Thin profitability, as margin on products is controlled by MSIL

MSIL decides the selling price of the products sold by the dealers and it provides a pre-decided commission to the dealers. RRM earns commission of about 2.5% on the cars, 15% on spare parts and 35% on the accessories. As most of the revenue comes from the sale of cars, the profitability of RRM is on lower side. The PBILDT margin of the firm has declined from 3.82% in FY15

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

to 3.01% in FY16 on account of increase in discounts & commissions given to push the sales. PAT margin however witnessed a marginal increase from 0.39% in FY15 to 0.44% in FY16, due to decrease in the interest charges.

Leveraged capital structure with weak debt coverage indicators

The capital structure of the company as represented by overall gearing of the firm has deteriorated from 3.39x as on March 31, 2015 to 3.75x as on March 31, 2016 on account of high working capital utilization. Being a trading firm, with low gross cash accruals the debt coverage ratios of the firm are on higher side. The interest coverage ratio of the firm improved from 1.27x in FY15 to 1.38x in FY16 on account of decline in the interest expense.

Cyclical nature of the 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 firm thus faces significant risks associated with the dynamics of the auto industry.

Working capital intensive nature of operations

RRM maintains inventory for about 85-95 days. The firm is required to maintain high level of inventory to be able to showcase all variants of PV of MSIL, as required by MSIL of its dealers. Firm makes payments to MSIL in advance which has led to high working capital requirement and utilization. Most of the working capital requirement of RRM is being funded through bank borrowing.

Key rating strengths

Experienced and resourceful Promoters

RRM was started by Managing Partner Mr. Ramakrishna Reddy who has 15 years of experience in trading activities of prawns feed, automobile dealership and distribution of automobile lubricants. He entered into the field of automobile dealership by starting Reddy & Reddy Automobiles (authorized dealer of Hero Honda Motors Limited), Novelty Reddy & Reddy Motors (authorized dealer of MSIL). The other companies in Reddy & Reddy Group are Reddy & Reddy Imports & Exports and Nexus Feeds Ltd.

Authorized dealer of MSIL linking the fortunes of RRM with MSIL

RRM is the authorized dealer of MSIL products and revenue of RRM is closely linked to the success of MSIL's models in market. MSIL is the market leader in the passenger vehicle segment in India with market share of around 48% during FY16 (45% in FY15). Higher market share of MSIL, launch of new models and vehicles especially in the executive sedan segment by MSIL coupled with overall increase in demand of PVs, is expected to help RRM to increase its revenue going ahead.

Liquidity Analysis

The operating cycle of the firm is on the higher side on account of higher inventory period of about 85-95 days on account of dealership business, wherein the entity is required to showcase all variants of vehicles. Further, current ratio of the firm is above unity level at 1.14x and cash & bank balance of Rs.0.63 crore as on March 31, 3016.

Analytical approach: Standalone

Applicable Criteria:

Policy in respect of Non-cooperation by issuer
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Wholesale Trading

About the firm:

Reddy & Reddy Motors (RRM) is a partnership firm, incorporated in February 2010 by Mr. G. Ramakrishna Reddy, Mr. G. Venkata Reddy and Mr. Srirama Reddy. Mr. G Ramakrishna Reddy is the Managing Partner of the firm. RRM is authorized dealer of Maruti Suzuki India Limited (MSIL) based in Eluru (Andhra Pradesh). It started its operations in June 2010 with a showroom in Eluru. RRM belongs to Reddy and Reddy Group which has diverse interests including trading of prawns feed, authorized dealership of MSIL and Hero Motors and is also engaged in button manufacturing business.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in 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-Cash Credit	-	-	-	10.00	CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Term Loan	-	-	Not Available	0.10	CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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-Cash Credit	LT	10.00	CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (09-May-19)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (12-Jan-18)
2.	Fund-based - LT-Term Loan	LT	0.10	CARE C; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (09-May-19)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (12-Jan-18)
3.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4; ISSUER NOT COOPERATING* (09-May-19)	-	1)CARE A4; ISSUER NOT COOPERATING* (12-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable.

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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About CARE Ratings:
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