

Vinayak Cars Private Limited

January 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	10.0	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total facilities	10.0 (Rs. Ten crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Vinayak Cars Private Limited (VCPL) is constrained by thin profitability margins with deterioration in FY17, adverse capital structure, moderate scale of operations with relatively lower networth base, working capital intensive nature of automobile dealership business, cyclical nature of the automobile industry, prospects linked to performance of its principals and intense competition in the dealership market.

These rating weaknesses are partially offset by the promoters and management experience in the automobile dealership business and constant fund infusion by the promoters in the company.

The ability of company to scale up its operations while improving its profitability margins and capital structure will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile with thin profitability margins and weak capital structure

The PBILDT margins of VCPL remained volatile and thin inherent to the nature of auto dealership industry. Company had PBDIT margin of 2.46% in FY15 improving to 2.69% in FY16 and subsequently declining to 1.71% in FY17. The decline in PBILDT margins in FY17 was mainly on account of increasing employee expenses. Interest coverage ratio was below unity due to decline in PBDIT, however, promoters have been infusing the funds in the company. During FY15-17, promoters have infused Rs. 2.73 crore in the company. Overall gearing of the company is also high at 3.10x as on Mar'17 (Mar'16: 3.60x) with modest networth base of Rs. 6.0 crore as on Mar'17 (including subordinated unsecured loan from promoters of Rs. 2.8 crore).

Working capital intensive nature of automobile dealership

VCPL heavily depends on working capital borrowings and high inventory holding period as the company needs to keep sufficient inventory for display and new fast moving cars. The company makes use of cash credit facilities from banks to fund its operations.

Cyclical nature of automobile industry

The auto industry is inherently vulnerable to the economic cycles and is sensitive to the interest rate environment and the level of fuel prices. Any hike in interest rates, increasing cost of purchase coupled with high fuel prices is likely to dampen the demand for vehicles. Improvement of macroeconomic factors like revival of industrial production, lowering of interest rates, rise in disposable income will help in improving the credit profile of automobile dealers. Dealerships deriving higher

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

proportions of their incomes from services, spares and accessories will benefit more compared to those with major source of revenue being sale of vehicles.

Key Rating Strengths

Experienced Promoters having a decade long track record of operations

Mr. Suresh Bafna, the Chairman and CEO, has a decade of experience in the auto dealership industry. Vinayak Cars Private Limited (VCPL) is part of the Vinayak group venturing into dealership of Skoda, DSK-Benelli, Yamaha, TATA commercial motors, all in Bengaluru. The group also had a dealership of Hyundai cars till August, 2017. VCPL has two Skoda showrooms and two Skoda workshops. VCPL also has one showroom and one workshop each of Yamaha and DSK Benelli.

Established presence in auto dealership market with revenue diversification

VCPL started with Skoda Dealership since 2007 and over the years added dealership of Yamaha (2014), DSK Benelli (2015) to their portfolio. The company has sold 550 cars in FY17 as against 607 cars in FY16. However the company has already recorded 578 car sales in 9MFY18. The company has constantly improved the sale of Yamaha bikes and scooters from 560 units in FY15 to 1827units in FY16 and to 2027 units in FY17.

The revenue of the company is well diversified among various segments and vehicle brands. The company earned 75% from Skoda, 11.7% from Benelli and 13.3% from Yamaha. The incentives from the principal are also a major contributor to the profit margins of VCPL.

Analytical approach: Standalone

Applicable Criteria

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

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

[Financial ratios: Non-Financial sector](#)

About the Company

Vinayak cars Private Limited (VCPL) was incorporated in 2007 by Mr. Suresh Bafna. The company is engaged in the business of auto-dealership for Skoda and bike dealership of Yamaha and DSK Benelli. The company has 4 showrooms and 4 workshops, all located in Bengaluru. The Vinayak group also has dealership of TATA Commercial Vehicles.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	112.52	113.89
PBILDT	3.02	1.95
PAT	0.34	0.54
Overall gearing (times)	3.60	3.10
Interest coverage (times)	1.34	0.76

A: Audited

Status of non-cooperation with previous CRA: SMERA has conducted the review on best available information and has classified Vinayak Cars Private Limited as 'Issuer Not-Cooperating' vide its press release dated April 27, 2017

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.

Analyst Contact:

Name: Himanshu Jain

Tel: 080-46625528

Mobile: 8123793395

Email: himanshu.jain@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-Term Loan	-	-	-	10.00	CARE BB-; 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-Term Loan	LT	10.00	CARE BB-; Stable	-	-	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: 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**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**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**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**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**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**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**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**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**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**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

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