

## Vinayak Cars Private Limited

December 27, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10.00	<b>CARE B+; Stable</b> (Single B Plus; Outlook: Stable)	<b>Revised from CARE BB-; Stable</b> (Double B Minus)
<b>Total facilities</b>	<b>10.00</b> (Rs. Ten Crore Only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in rating to the bank facilities of Vinayak Cars Private Limited (VCPL) factors in the losses incurred by company in FY18, stretched liquidity and significant rise in debt levels leading to adverse capital structure. The rating is also constrained by cyclical nature of automobile dealership business, intense competition from other players in the industry and prospects linked to performance of principals.

However, the rating continues to derive strength from the experienced promoters having an established track record in the automobile dealership business, established presence in auto dealership market in Bangalore with revenue diversification and improvement in sales in FY18.

The ability of the company to scale up operations amidst high competition while improving margins and managing effectively its working capital requirements will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Stretched liquidity and weak financial risk profile coupled with losses incurred in FY18**

Company reported net loss of Rs. 0.14 crore in FY18 due to high interest expenses incurred on account increase in borrowings. The overall gearing of the company deteriorated to 10.33x in FY18 as against 6.67x in FY17 on account increase in unsecured loans from promoters, increased bank borrowings to fund increase in current assets. The unsecured loans were infused mainly to meet the additional capex incurred towards the set up cost of new showroom and workshop. The company has seen declining GCA y-o-y from Rs.1.59 crore in FY16 to Rs.0.74 crore in FY18 on account of increased finance cost and high reliance on the incentives given by the principals.

#### **Stretched liquidity position**

Liquidity position of the company is weak with near full WC utilization and deterioration in WC cycle. VCPL heavily depends on working capital borrowings to fund 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. The working capital cycle of the company deteriorated to 77 days in FY18 (PY: 68 days).

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

#### **Prospects linked to performance of its principals and intense competition in the dealership market**

VCPL is an authorized dealer of Skoda, Yamaha and DSK Benelli which makes the company vulnerable to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of its principal's vehicles in the market and their ability to launch new products as per the market dynamics.

Product pricing is level marked by the principal companies at the time of dispatch, thereby restricting the company to earn incremental margins. Further, VCPL is also exposed to competition from the products of other OEM's and dealers operating in the same region.

#### Key Rating Strengths

#### **Experienced Promoters having a decade long track record of operations**

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

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. VCPL has two Skoda showrooms and two Skoda workshops. VCPL also has one showroom and one workshop each of Yamaha and 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 782 cars (FY17:550) and 1,764 two wheelers (FY17: 2,396) in FY18. In H1FY19, the company has sold 486 cars and 1130 units translating to 62% and 59% of sale FY18 respectively.

The revenue of the company stands diversified among various brands and segments with 84%, 6% and 10% revenue in FY18 earned from Skoda, Benelli and Yamaha respectively. 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)	FY17 (A)	FY18 (A)
Total operating income	115.76	127.66
PBILDT	3.82	4.34
PAT	0.54	-0.14
Overall gearing (times)	6.67	10.33
Interest coverage (times)	1.48	1.23

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 October 08, 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](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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**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 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	10.00	CARE B+; Stable	-	1)CARE BB-; Stable (30-Jan-18)	-	-

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