

Vinayak Cars Private Ltd

November 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total facilities	10.00 (Rs. Ten Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Vinayak Cars Private Ltd (VKPL) is constrained by the moderation in operational performance in FY19 and weak financial risk profile, stretched liquidity position, prospects linked to performance of its principals, intense competition in the dealership market and cyclical nature of the automobile industry.

However, the ratings take into account more than a decade long experience of promoters and the company's established presence in auto dealership market with diversified revenue profile.

Going forward, the ability of the company to increase the scale of operations, while improving margins in the dynamic and uncertain market and managing the working capital efficiently will be the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Improvement in gross cash accruals to meet the interest obligations of the company and thereby reducing dependence on promoter support for the same.
- Interest coverage >1 x on a sustainable basis.

Negative Factors

- Inability to meet projected sales in Benelli bikes
- Total debt to PBILDT exceeding 8.06x
- Stretching of operating cycle further

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderation in operational performance and weak financial risk profile: The operations of VIPL moderated during FY19 due to the exit of Benelli from India, however post the re-entry of the group, the company clocked sales of Rs.2 Cr for Jan-Mar '19. But, the operations of the company moderated further due to prevalent auto industry slowdown and uncertainties regarding government regulations. With this the total operating income showed a marginal decline of 5.44% from Rs.127.66 crores in FY18 to Rs.120.71 crores in FY19. In H1FY19, the sale of Yamaha 2 wheelers and Skoda cars were hit, yet performed relatively well in the Benelli segment. For H1FY19, the company clocked turnover of Rs. 43.4 Cr.

In FY19, the company's margin fell at PBILDT level from 3.40% in FY18 to 2.06% in FY19. Company reported thin PAT margin of 0.39% in FY19 after adjusting the extra-ordinary income of Rs. 2.71 Cr against net losses in FY18.

The interest coverage ratio deteriorated from 1.23x in FY18 to 0.74x in FY19.

Stretched liquidity position: VCPL heavily depends on working capital borrowings and high inventory holding period as the company needs to keep sufficient inventory for display. The company has Rs. 17 Cr inventory funding and Rs. 10 Cr cash credit facility. The working capital cycle of the company deteriorated to 88 days in FY19 (PY: 77 days) attributable to higher inventory holding period with increasing demand for the new launches and a high receivable days. The average CC utilisation of the company for the 12-month period ended Sep, 2019 was 85%.

Prospects linked to performance of its principals and intense competition in the dealership market: VCPL is an authorized dealer of Skoda, Yamaha and 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. Further, VCPL is also exposed to competition from the products of other OEMs and dealers operating in the same region.

Cyclical nature of the Automobile Industry : The auto industry is inherently vulnerable to the economic cycles and is sensitive to the interest rate environment, level of fuel prices and monsoon. The Indian automobile industry is going through a transition phase with new guidelines regarding fuel norms, registration, insurance, etc. As per the Central Government

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

directive, from April, 2020 only BS VI compliant vehicles should be sold in the Indian market and diesel vehicles need to be scrapped from the roads within 10 years of registration and petrol vehicles within 15 years. Due to the prevailing uncertainty, consumer demand is muted and OEMs are left with huge inventory. Many OEMs has cut down productions and laid off workers. Improvement of macroeconomic factors like revival of industrial production, lowering of interest rates, rise in disposable income and in the current scenario better understanding regarding new vehicle norms will help in attaining the consumer confidence and will help in improving the credit profile of automobile dealers.

Key Rating Strengths

Experienced Promoters having a decade long track record of operations: Mr. Suresh Bafna, the MD 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, Benelli, Yamaha and TATA commercial motors. The group also had a dealership of Hyundai cars till August, 2017. VCPL has two Skoda showrooms, one showroom each of Yamaha and Benelli and two Skoda workshops in Bangalore.

Established presence in auto dealership market with diversified revenue profile: VCPL started with Skoda Dealership in 2007 in Bangalore and Yamaha in 2014 & Benelli in 2015 to their portfolio. In terms of market share, VCPL has 50% in the sales of Skoda cars, 90% in Benelli and around 6% in Yamaha 2 wheelers in Bangalore. The company sold 803 cars (PY: 782 cars) and 1701 two wheelers (PY: 1928) in FY19. The sale of Skoda cars remains the major contributor to the total revenue given the high ticket size. In FY19, Benelli sales dropped due to the exit of DSK Benelli in February 2018, however, in August '18 the Benelli group re-entered the Indian market through M-o-U with Hyderabad based Mahavir group.

In H1FY20, the sale of Benelli bikes improved following new launches and VCPL sold 88 bikes. However, the sale of Yamaha 2 wheelers and Skoda fell due to muted demand uncertainty regarding BS VI vehicles and overall economic slowdown. The service income and sale of spare parts accounted for 22% and 33% of the revenue in FY19 & H1FY20.

Liquidity: Poor

Poor liquidity characterized by insufficient accruals to meet interest obligations and modest cash balance of Rs. 0.20 Crore as on March 31, 2019. The average CC utilisation for the 12 month period ended Sep '19 was 85%. The company's operating cycle in FY19 was 88 days with a current ratio and quick ratio of 0.91 and 0.29 respectively.

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 and is headed by Mr. Suresh Kumar Bafna. The company is engaged in the business of auto-dealership for Skoda and bike dealership of Yamaha and Benelli. The company has 4 showrooms (2 showrooms for Skoda and one each for Yamaha & Benelli) and 2 workshops for Skoda cars, all located in Bengaluru.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	127.66	120.71
PBILDT	4.34	2.48
PAT	-0.14	0.47
Overall gearing (times)	10.33	7.74
Interest coverage (times)	1.23	0.74

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	1)CARE B+; Stable (27-Dec-18)	1)CARE BB-; Stable (30-Jan-18)	-

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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