

Yadav Tractor Company

February 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3.43	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	3.00	CARE A4 (A Four)	Assigned
Total facilities	6.43 (Rs. Six Crore and Forty Three Lakhs Only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Yadav Tractor Company (YTC) are primarily constrained on account of continuous decline in Total Operating Income (TOI) with thin profitability margin and weak debt coverage indicators. The ratings are, further, constrained on account of working capital intensive nature of operations and volume driven business in highly intensive auto dealership industry.

The ratings, however, favorably take into account the experienced partner with long track record of operation through association with Mahindra & Mahindra Limited.

Improvement in the overall financial risk with an increase in scale of operation in light of competitive scenario and better management of working capital will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Continuous Decline in Total Operating Income coupled with thin profitability margins and weak debt coverage indicators in intense competitive automobile industry

TOI of the firm has shown continuously declining trend in past four financial years ended FY17 due to lower sales of tractors attributed by poor monsoon. During FY17, TOI of the firm has declined by 20.27% over FY16 (30.76% in FY16 over FY15).

Being present in the trading industry coupled with highly competitive industry, the profitability of the firm stood thin marked by PBILD and PAT margin of 5.41% and 0.16% respectively as per provisional results of FY17.

The capital structure of the firm stood moderately leveraged with an overall gearing of 1.28 times as on March 31, 2017. However, debt service coverage indicators of the firm also stood weak with total debt to GCA at 62.07 times in FY17. Further, interest coverage ratio stood moderate at 1.13 times as on March 31, 2017.

Working capital intensive nature of operations, volume driven business with intense competition in the auto dealership industry

The operations of the firm are working capital intensive in nature supported largely by the bank borrowings. The operating cycle of the firm deteriorated from 94 days in FY16 to 119 days in FY17 mainly on account of higher inventory period and collection period. The higher in tractor inventory holding led to more utilization of working capital bank borrowings. Further, Indian tractor industry is highly competitive in nature as there are large numbers of players operating in the market like Mahindra & Mahindra Limited, Escorts Limited, HMT Limited, Tractors & Farm Equipment Limited etc. YTC's total operating income is derived from the sale of Mahindra tractors and hence its performance is highly dependent on the performance of Mahindra & Mahindra, its key principal.

Key Rating Strengths

Experienced partner with long track record of operation through association with Mahindra & Mahindra

The firm was established in 1990 and hence, has a track record of more than two decade. Mr. Dwarika Prasad Yadav and Mr. Ram Singh Yadav, partners, have more than two decade of experience in dealership industry and looks after overall

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

affairs of the firm. The promoters of the firm are assisted by second tier management. YTC is engaged in the automobile dealership business and has a long standing association with its principal, Mahindra and Mahindra. Currently, the company operates four showrooms along with workshops for after sale services at Lucknow.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology- Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

About the Firm

Lucknow (Uttar Pradesh) based Yadav Tractor Company (YTC) was formed in 1990 by Mr. Dwarika Prasad Yadav and Mr. Ram Singh Yadav as a partnership concern and shares equal profit & loss. YTC is an authorized dealer of Mahindra tractors and operates total four showrooms along with workshops for after sale services at Lucknow. Also, the firm is engaged in the trading of implements, spare parts, insecticides and pesticides.

YTC belongs to Yadav Loha Bhandar Group (YLB group). The group is also promoting Yadav Loha Bhandar Private Limited (YLBPL), authorized dealer of TATA iron rods/ pipes and ACC cement, Dwarika Industries Limited (DIL) and Rukmani Cold Storage Private Limited (RCSL) is engaged in the business of storage of potatoes and seeds. Dwarika Krishi Limited (DKL) is engaged in the business of trading of seeds, pesticide and other agriculture material and Yadav Motor Company (YMC) is authorized dealer of Mahindra two wheelers and operates two showrooms at Lucknow.

Brief Financials (Rs. crore)	FY16(A)	FY17(A)
Total operating income	18.25	14.55
PBILDT	0.80	0.79
PAT	0.02	0.02
Overall gearing (times)	2.22	1.28
Interest coverage (times)	1.10	1.13

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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.

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About CARE Ratings:

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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-Term Loan	-	-	-	3.43	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4

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	3.43	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4	-	-	-	-

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