

January 06, 2017

## Shantesha Motors Private Limited

Instrument*	Rated Amount	Rating Action
	(in crore <sup>1</sup> )	
Fund Based Limits	9.75 (enhanced from 7.00)	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
<b>Total</b>	<b>9.75</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has upgraded the long-term rating assigned to the Rs. 9.75 crore (enhanced from 7.00) fund based facilities of Shantesha Motors Private Limited (SMPL) from [ICRA]BBB- (pronounced ICRA triple B minus)<sup>2</sup> to [ICRA]BBB (pronounced ICRA triple B). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating upgrade takes into account the consistent growth in SMPL's turnover during the last couple of years backed by an increase in sales volumes and increase in share of high margin spares and service income and the company's established presence in Belgaum, Karnataka, being the sole authorised MSIL car dealer in this region which aids in achieving healthy operating profitability levels. ICRA also positively notes the company's expansion plan of opening a NEXA outlet in Belgaum by Q4FY2017 which is likely to support its revenue growth in the near to medium term. The company's low gearing; comfortable coverage indicators and moderate working capital utilisation leading to financial flexibility are other rating positives. The rating also factors in the long standing experience of the promoters in the car dealership business and the continued market leadership of MSIL as the largest domestic passenger car manufacturer.

The rating, however, continues to remain constrained by the company's weak bargaining power in the automobile dealership business, wherein pricing policies are decided by the principal and the vulnerability of sales to cyclicity in the passenger vehicle industry. The rating also factors in the intense competition from other OEM dealerships in the Belgaum region, thereby limiting growth to some extent. The rating also takes into account the increase in working capital intensity due to higher debtor and inventory days leading to decline in cash flows from operations during FY2016, however, conscious efforts being undertaken by the management to reduce inventory levels provide comfort to some extent.

Going forward, the company's ability to grow its business, sustain profit margins and enhance its cash flows over the medium term would be the key rating sensitivities.

### Key rating drivers

#### Credit Strengths

- » Sole authorized dealer of Maruti Suzuki India Limited (MSIL) in Belgaum area for over a decade
- » Platinum dealer rating assigned by MSIL reflects strong sales and service performance of SMPL
- » Comfortable financial profile as indicated by consistent growth in turnover, low gearing, healthy profitability and coverage indicators
- » Upcoming Nexa showroom in Q4 FY2017 is likely to aid future revenue growth and volumes
- » Favorable domestic demand outlook for MSIL, the market leader in the passenger vehicle segment in India support growth prospects

<sup>1</sup> 100 lakhs = 1 crore = 10 millions

<sup>2</sup> For complete rating scale and definitions, please refer ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA Rating Publications

**Credit Weakness**

- » Low bargaining power due to trading nature of business and margins being controlled by MSIL
- » Intense competition from other OEM dealerships in the Belgaum region limits growth to some extent
- » Exposure to cyclical nature of the Indian passenger vehicle industry
- » Reduced cash flows from operations due to increase in working capital intensity during FY2016

**Description of key rating drivers highlighted above:**

SMPL has started a new showroom in Athani, Belgaum and also expanded its service network during FY2016. It plans to start a Nexa showroom in Q4 FY2017, which would be funded through a mix of internal accruals and promoter's contribution. The revenues from this recently started and upcoming showroom will aid the company in achieving revenue growth in the near to medium term and maintain its profit margins. The company is exposed to competition from dealerships of other OEM's, some of which have witnessed strong growth in 7M FY2017, primarily due to success of new launches and incremental volume contribution from the same. The competitive intensity is limited to an extent as the company is the sole authorized dealer of MSIL in Belgaum which has outperformed underlying industry growth in the backdrop of new launches and network expansion during the last three years. The company's financial profile is comfortable on account of negligible term loans, low interest rate and adequate debt coverage indicators. However, the cash flow position was stretched during FY2016 on the back of higher year-end debtor and inventory levels.

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

< <http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>>

Rating Methodology for Automobile Dealerships

<<http://www.icra.in/Files/Articles/Automobile%20Rating%20Methodology,%20Mar%202016.pdf>>

**About the Company:**

Incorporated in 1999, SMPL is a family owned business with Mr. Vivek C Kamlani being the Managing Director. The company is engaged in passenger car dealership for Maruti Suzuki India Limited (MSIL), offering 3S (Sales, service and spares) facility and driving school facilities in the Belgaum district of Karnataka. The company currently operates five showrooms, seven workshops, and two stock yards in Belgaum. SMPL recorded a net profit of Rs. 2.54 crore on an operating income of Rs. 116.51 crore for the year ending March 31, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

Name of Instrument	Current Rating			Chronology of Rating History for Past 3 years		
	Type	Rated Amount (Rs. cr)	FY2016	FY2015	FY2014	FY2013
	Jan-17			Aug-16	Feb-14	Oct-14
Cash Credit	Long Term	9.75	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA] BB+ (Stable)	[ICRA] BB+ (Stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	9.75	[ICRA]BBB (Stable)



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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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