

January 18, 2017

Sri Gopal Automobiles

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	7.00	[ICRA]BB-/Stable; assigned
Term Loan	3.00	[ICRA]BB-/Stable; assigned
Unallocated Amount	2.00	[ICRA]BB-/Stable; assigned
Total	12.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned long-term rating of [ICRA]BB- (pronounced as ICRA double B minus)¹ to the Rs. 7.00-crore cash-credit facility, Rs. 3.00-crore term loans and Rs. 2.00-crore unallocated facilities of Sri Gopal Automobiles (SGAM). The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings positively factor in the established position of the company as the sole authorised dealer for two wheelers of Hero MotoCorp Limited (HMCL), which has a strong brand presence in the domestic two-wheeler industry in Tirupati, Kadapa and Chittoor regions and long experience of the promoter in the automobile-dealership business. The ratings are, however, constrained by the moderate financial risk profile of the group as reflected by high gearing of 2.01 times and modest coverage indicators with NCA/Debt at 3.4% and interest coverage ratio of 1.14 times for FY2016, and muted revenue growth over the last four years owing to subdued rural demand. The ratings are further constrained by the risks associated with the partnership nature of the firms. ICRA also notes the thin margins of the group, inherent to the auto dealership business and a highly competitive industry with growing scale and presence of other Original Equipment Manufacturers (OEM).

Key rating drivers

Credit Strengths

- More than three decades of experience of the management in vehicle-dealership business
- Brand equity of HMCL ensures off-take and the firm's business growth and continuity

Credit Weaknesses

- Decline in operating income in FY2015 and FY2016 due to lower sales volume owing to subdued rural demand
- High competitive intensity from other OEMs, leading to severe pricing pressure
- Moderate financial profile as reflected in a gearing of ~2.01 times as on March 31, 2016 and weak coverage indicators
- Risks arising from the partnership nature of the firm

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Description of key rating drivers highlighted above:

Sri Gopal Automobiles, Sri Gopal Auto Centre and Sri Gopal Auto Stores are the sole authorised dealers for Hero Motorcorp Limited (HMCL) in Tirupati, Kadapa and Chittoor districts of Andhra Pradesh. HMCL is the market leader in the motorcycles segment which is prominent in the districts where Sri Gopal Group operates. Nevertheless, the group faces competition from dealers of other OEMs.

The sales of the group have declined in the last two years on account of subdued rural demand and slowdown in the auto sector. Also the competition and growth of HMCL's erstwhile partner, HMSI, has hampered the potential growth in scale and size. However, the group has witnessed improvement in sales for 8MFY2017 owing to a good monsoon and festive season demand

The financial profile of the group has been characterised by high gearing over the years on account of high working capital borrowings and thin margins leading to weak accruals. Coverage indicators have remained weak in the last four years on account of modest profitability reported by the firm. The group is also exposed to risks arising from the partnership nature of the firm.

Going forward, the ability of the group to increase its revenues and profitability while effectively managing its working capital requirements remains the key credit rating drivers.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of Sri Gopal Automobiles along with its group companies – Sri Gopal Auto Centre (rated [ICRA]BB- (Stable)) and Sri Gopal Auto Stores (rated [ICRA]BB- (Stable)) – since they operate in the same line of business, have operational linkages and share a common management.

Links to applicable criteria

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

About the Company:

Sri Gopal Automobiles (SGAM) was incorporated in 1989 as a partnership firm in Tirupati, Andhra Pradesh. The partners of the firm are Mr. D. Gopal, Mr. D. Julius, Mr. D. Pundarikakshaiah and Ms D. Jyothi. The firm is an authorised dealer of two-wheeler vehicles of Hero MotoCorp Limited (HMCL). It operates two Sales, Spares and Service (3S) facility in Tirupati – one in Renigunta and another in Perur.

Other group companies include Sri Gopal Auto Stores (SGAS) and Sri Gopal Auto Centre (SGAC). The promoters have been involved in the business for more than two decades. SGAS operates a 3S facility and it is the sole authorised dealer of HMCL in Kadapa, Andhra Pradesh. SGAC is the sole authorised dealer of HMCL in Chittoor, Andhra Pradesh.

The group recorded net profit of Rs. 0.77 crore on an operating income of Rs. 113.45 crore for the year ending March 31, 2016 against net profit of on an operating income of Rs. for the year ending March 31, 2015.

Status of non-cooperation with previous CRA: BWR B+/Stable (Not reviewed)

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	FY2016	FY2015	FY2014
				January 2017			
1	Cash Credit	Long Term	7.00	[ICRA]BB-(Stable)	-	-	-
2	Term Loan	Long Term	3.00	[ICRA]BB-(Stable)	-	-	-
3	Unallocated	Long Term	2.00	[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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	7.00	[ICRA]BB- (Stable)
Term Loan	August 2014	-	December 2021	3.00	[ICRA]BB- (Stable)
Unallocated Amount	-	-	-	2.00	[ICRA]BB- (Stable)

Source: Sri Gopal Automobiles

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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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