

March 10, 2017

## Bimal Auto Agency India Private Limited

Instrument*	Rated Amount	Rating Action
	(in crore)	
Fund Based	24.00	[ICRA]BBB Re-affirmed; Outlook revised from 'Stable' to 'Positive'
<b>Total</b>	<b>24.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced as ICRA triple B)<sup>1</sup> for the Rs. 24.00 crore fund based facilities of Bimal Auto Agency India Private Limited ('BAAIPL' / 'the company'). The outlook on the long term rating has been revised from 'Stable' to 'Positive'.

### Rationale

The rating reaffirmation takes into account the healthy growth in BAAIPL's turnover during FY2016 and 9M FY2017 years backed by an increase in sales volumes and increase in the share of high margin spares and service income. The rating continues to take comfort from extensive experience of the promoters in auto dealership business with strong market position in and around Bangalore, Karnataka by virtue of widespread presence in the city and the market leadership of MSIL as the largest domestic passenger car manufacturer.

The rating is, however, constrained due to the low bargaining power of the company, wherein pricing policies are determined by MSIL. The rating takes into account BAAIPL's leveraged capital structure due to high debt funded capex carried out over the last few fiscals and the limited geographical presence of the company, with showrooms only in and around Bangalore. ICRA takes note of the company's exposure to the inherent cyclical nature of the passenger vehicle industry by virtue of its linkages to the macro-economic environment. The rating also considers the high competitive pressure faced by the company from a number of established dealers of MSIL and other OEMs leading to pressure to pass on price discounts to customers which limits profitability.

Going forward, the company's ability to increase its profitability amidst competition and improve its capital structure and coverage indicators would be the key rating sensitivities.

The positive outlook on the rating reflects the favourable demand prospects of MSIL in the Indian passenger vehicle industry, the consistent growth in the company's turnover for the last several years and its position as one of the largest MSIL dealers in Bangalore, Karnataka. ICRA expects that consistent increase in the company's sales volumes will translate into an increase in profitability and cash accruals from business over the medium term. The ratings may be upgraded, going forward, if the company is able to sustain its revenue growth and improve its profitability and capital structure and coverage indicators on expected lines. Conversely, the outlook may be revised to stable if the financial profile weakens with lower accruals or with unanticipated debt funded capital expenditure plans.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit Strengths

- » Healthy revenue growth and increase in operating accruals during FY2016 and 9M FY2017;
- » Authorized dealer of Maruti Suzuki India Limited (MSIL), the market leader in the passenger car segment in India; platinum dealer rating assigned by MSIL reflects strong sales and service performance of BAAIPL;
- » Extensive experience of promoters in the auto dealership business; strong market position in Bangalore region of Karnataka with 18 showrooms and more than 11 service outlets;
- » Favourable domestic demand outlook for MSIL, the market leader in the passenger vehicle segment in India support growth prospects.

### Credit Weakness

- » Leveraged capital structure and moderate debt coverage indicators due to debt funded capex and high working capital requirements;
- » Low bargaining power due to trading nature of business and margins being controlled by MSIL; inherently low operating margins and return indicators in the auto dealership business; high fixed expenses relating to leased showrooms puts further pressure on margins;
- » High competitive intensity of operations from a large number of MSIL dealerships as well as from other OEMs dealership business; operations concentrated in Bangalore, Karnataka;
- » Exposure to cyclical nature of the Indian passenger vehicle industry.

### Description of key rating drivers highlighted above:

The company reported a healthy growth in its operating income on account of healthy demand for MSIL vehicles as well as improved realizations during FY2016 and 9M FY2017. The operating margin, however, remained weak as in any dealership business and witnessed a decline in FY2016 primarily on account of high rentals and high discounts offered to garner demand for five new showrooms and one service facility that were opened during FY2016. The operating margin, however, improved marginally during 9M FY2017 mainly due to lower workshop and administration expenses. Total debt for the company has remained high over the past few years owing to the debt funded capex undertaken for setting up of new showrooms coupled with working capital intensive nature of operations. Going forward, the prospects for MSIL remain favourable owing to the healthy demand for its popular models as well as planned line up of new launches in the near term. Also, BAAIPL has set up various showrooms (including the premium NEXA showrooms) and servicing facilities in Bangalore in the recent past, which is expected to aid the company in scaling up its operations, going forward. The revenue growth would, however, continue to remain vulnerable to the cyclicity in the domestic auto sector.

### 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:**

Established in 2002 as a partnership firm in Bangalore, Bimal Auto Agency is an authorized Maruti Suzuki India Limited (MSIL) passenger car dealer. In 2007, its constitution was changed from that of a Partnership Firm to a Private Limited Company. The firm's operations, however, started in 1984 in Guwahati. It is a family-owned business with Mr. Naveen Sarawgi as the Chief Executive Officer. Currently, the company has a presence at around 18 locations in Bangalore, with 18 sales outlets, more than 11 service outlets, two used car outlets and nine driving schools. BAAIPL has been rated as a platinum dealer in 9 out of 12 years by MSIL.

The company recorded a net profit of Rs. 4.02 crore on an operating income of Rs. 702.86 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)	FY2017	FY2016	FY2015	FY2014
		March 2017			Feb-16	-	-
1	Cash Credit	Long Term	24.00	[ICRA]BBB (Positive)	[ICRA]BBB (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				24.00	[ICRA]BBB (Positive)

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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