

July 24, 2017

Surya Automobiles Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term – Cash Credit	4.00	[ICRA]B+ (Stable); re-affirmed
Long-term – Term Loan	2.00	[ICRA]B+ (Stable); re-affirmed
Total	6.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed its long-term rating of [ICRA]B+ (pronounced ICRA B plus)¹ on the Rs. 6.00-crore² bank facilities of Surya Automobiles Private Limited (SAPL). The outlook on the long-term rating is 'Stable'.

Rationale

ICRA's rating reaffirmation takes into account SAPL's established track record in the two-wheeler dealership business and its established position as an authorised dealer of Hero MotoCorp Limited (HML), the market leader in the two-wheeler segment. ICRA also notes the improvement in the operating margin over the last two years, which resulted in higher cash accruals. Furthermore, the company's debt coverage indicators have improved because of loan repayments and lower utilisation of working capital limits. However, the rating is constrained by the intense competition SAPL faces from the dealers of other OEMs such as Honda Motorcycles and Scooters, Bajaj, and TVS and the pressure to pass on discounts to end customers. Further, the rating also factors in the year-on-year decline in sales volume, which resulted in lower top-line. The rating also takes into consideration the inherent cyclicity in the automobile industry and the company's moderate financial profile, marked by high gearing due to large working capital requirement.

Going forward, the company's ability to improve its margins on a sustainable basis and improve its debt coverage indicators will be the key rating sensitivity.

Key rating drivers

Credit strengths

- Extensive experience of the promoters in the two wheeler business
- Authorised dealer of Hero MotoCorp Limited (HML), the market leader in the two wheeler segment

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

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- Stiff competition from other OEM dealers such as Honda Motorcycles and Scooters, Bajaj Auto, Suzuki, and Yamaha forces company to pass on cash discount to end customers
- Exposure to inherent cyclical nature of the automobile industry
- Stable but low profitability
- High industry competition along with low geographical diversification

Description of key rating drivers:

SAPL is an authorised dealer of Hero MotoCorp Limited (HML) and is involved in the sale of new motorcycles and scooters, servicing of two-wheelers and sales of spare parts. The company has one sales and service outlet in Sri Ganganagar in Uttar Pradesh. SAPL witnessed a ~6% decline in its top-line, from Rs. 96.6 crore in FY2015 to Rs. 90.5 crore in FY2016. As per the provisional financials, the company reported a top-line of Rs. 89.5 crore in FY2017. The sales of two-wheelers marginally declined to 20,030 units in FY2017 from 20,411 units in the previous year.

However, the company's capital structure has improved because of loan repayments and lower utilisation of working capital limits. Even though the operating margin improved in FY2017, it continues to be thin due to high competition.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

Rating Methodology for Automobile Dealerships

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

About the company:

SAPL was incorporated by the Saneja family in 1998. Mr Bharat Saneja, Mr Prithviraj Saneja and Mr Sumit Saneja are the company's directors. Along with the 2W dealership of Hero MotoCorp (HML) at Sri Ganganagar, Rajasthan through SAPL, the promoters have HML dealerships in Abohar (Punjab) and Jaipur (Rajasthan), through other entities.

In FY2016, the firm reported a net profit of Rs. 0.54 crore on an operating income of Rs. 90.5 crore, as compared to a net loss of Rs. 0.61 crore on an operating income of Rs. 96.67 crore in the previous year. On a provisional basis, the company reported an operating income of Rs. 89.51 crore in FY2017.

Key Financial Indicators:

Particulars (Rs. crore)	FY2016	FY2017*
Operating Income	90.50	89.51
PAT	0.54	0.84
OPBDITA/OI (%)	2.65%	2.73%
RoCE (%)	14.43%	17.97%
Total Debt/TNW (times)	3.29	1.67
Total Debt/OPBDITA (times)	3.46	2.30
Interest coverage (times)	2.54	3.17
NWC/OI (%)	4.25%	2.64%

**provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	
				July 2017	July 2016	August 2015	-
1	Cash Credit	Long term	4.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-
2	Term Loan	Long term	2.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-

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
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	4.00	[ICRA]B+ (Stable)
Term Loan	2015	-	2019	2.00	[ICRA]B+ (Stable)

Source: SAPL

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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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