

## Bimal Auto Agency India Pvt Ltd

March 15, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Fund-based	24.00	24.00	[ICRA]BBB reaffirmed; outlook revised from 'positive' to 'stable'
<b>Total</b>	<b>24.00</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure 1

### Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 24.00-crore<sup>1</sup> bank facilities of Bimal Auto Agency India Pvt. Ltd. (BAAIPL) at [ICRA]BBB (pronounced ICRA triple B)<sup>2</sup>. The outlook on the long-term rating has been revised from 'Positive' to 'Stable'.

### Rationale

The revision in outlook takes into consideration the moderation in the company's capital structure and coverage indicators on account of term loans availed in FY2017 towards funding a land acquisition. ICRA, however, takes comfort from the healthy valuation of the property and its expected outright sale in the near term. The rating also takes into consideration the volume de-growth during 9M FY2018 on account of subdued sales volume of NEXA models due to increase in competitive intensity from other recently-commenced NEXA showrooms in Bangalore. Besides, reduction in institutional sales, subsequent to discontinuation of Ritz by Maruti Suzuki India Limited (MSIL) in February 2017, also impacted BAAIPL's sales volumes to an extent. BAAIPL's margins from sale of cars continue to remain thin, inherent to the automobile dealership business. Besides, competition faced by the company from other MSIL dealers as well as dealers of other Original Equipment Manufacturers (OEMs) in the Bangalore region exerts pressure on its sales and profit margins. However, the same is offset to an extent by revenues derived from higher-margin segments including servicing, and sale of spares and accessories.

Nevertheless, the rating continues to derive comfort from the extensive experience of the promoters in the automobile-dealership business and BAAIPL's strong market position in and around Bangalore, aided by its widespread presence in the city. The rating also positively factors in the market leadership of MSIL, BAAIPL's principal, with a 50.3% market share in domestic passenger vehicles segment during 9M FY2018 which is likely to aid growth prospects in the near term. Further, with the envisaged investments towards setting up an additional NEXA showroom, which is likely to commence operations in Q1 FY2019, BAAIPL's revenues are expected to witness healthy growth in the near term.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</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

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that BAAIPL will continue to benefit from the extensive experience of the promoters in the industry and healthy market position of its principal, MSIL. The outlook may be revised to 'Positive' if the company achieves significant growth in revenues and is able to monetise its freehold land and effect a meaningful reduction in debt levels, leading to improvement in the capital structure and coverage indicators. The outlook may be revised to 'Negative' if there is further drop in operating income, leading to decrease in accruals from operations and resulting in further weakening of coverage indicators.

## Key rating drivers

### Credit strengths

**Long track record in automobile-dealership business** – BAAIPL has been an authorised dealer of MSIL's passenger vehicles since 1970 and the company's Bangalore operations commenced in 2002. The proven track record in dealership business coupled with its widespread presence in Bangalore region supports BAAIPL's growth prospects to an extent.

**Healthy revenue growth expected in the near term, aided by commencement of one more NEXA showroom in Q1 FY2019** – The operating income of BAAIPL grew at a CAGR of 25.6% in the past two years, FY2016 and FY2017, aided by commencement of a NEXA showroom and five other sales showrooms in FY2016. However, the sales volumes declined in 9M FY2018 due to subdued sales of NEXA models on account of increase in competitive intensity from other recently-commenced NEXA showrooms in Bangalore. Besides, drop in institutional sales subsequent to discontinuation of Ritz by MSIL in February 2017 also impacted the sales volumes to an extent. Nevertheless, one more NEXA showroom that is being set up by the company is expected to commence operations in Q1 FY2019 and the same is likely to aid in healthy revenue growth in the near to medium term.

**Strong market position of MSIL, aided by positive reception of new models and continued healthy demand for existing models** - MSIL has sustained its leadership position in the Indian domestic passenger vehicles segment as in the past. The market share has been improving over the years, driven by success of its new models and continued with the healthy performance of existing models. During 9M FY2018, the market share of MSIL improved further to 50.31% (compared to 47.31% during 9M FY2017) on the back of positive response for its new models including Baleno, Vitara Breeza and refreshes of Wagon R, Swift and Swift Dzire.

### Credit challenges

**Moderation in capital structure** – BAAIPL's capital structure moderated in FY2017 subsequent to term loan of Rs. 20.0 crore availed in March 2017. The borrowing was towards funding the purchase of land located near the company's showroom in Mahadevapura, Bangalore, at a cost of Rs. 21.72 crore. However, with no major debt-funded capital expansion plans on the anvil, BAAIPL's capital structure is likely to improve going forward, supported by reduction in debt levels following scheduled repayments, coupled with improvement in net worth position, aided by accruals from operations.

**Thin profit margins owing to dealership nature of operations** – Inherent to automobile-dealership business, with commission structure decided by the principal, the profit margins have remained thin for BAAIPL. However, revenues derived from higher-margin segments including workshop income, sale of spares and accessories support the company's profitability to an extent.

**Intense competition from other automobile dealers** –The competitive intensity prevailing in Bangalore region owing to presence of several other MSIL dealers and also dealers of other OEMs exerts pressures on the sales volumes and margins of the company.

**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 Dealership](#)

## About the company

Established in 2002 as a partnership firm in Bangalore, Bimal Auto Agency is an authorised Maruti Suzuki India Limited (MSIL) passenger car dealer. In 2011, its constitution was changed from that of a partnership firm to a private limited company. The firm's operations, however, started from Guwahati (Assam) in 1970. It is a family-owned business with Mr. Naveen Sarawgi as the Chief Executive Officer. The company has presence across 18 locations in Bangalore, with more than 20 outlets including showrooms, true-value outlets, NEXA showroom and sales and spare outlets. Besides, the company operates nine driving schools in Bangalore.

## Key financial indicators (Audited)

	<b>FY2016</b>	<b>FY2017</b>
Operating Income (Rs. crore)	702.86	835.03
PAT (Rs. crore)	3.85	4.74
OPBDIT/ OI (%)	1.85%	1.87%
RoCE (%)	18.66%	16.49%
Total Debt/ TNW (times)	1.67	2.30
Total Debt/ OPBDIT (times)	3.12	4.25
Interest Coverage (times)	2.62	2.55
NWC/ OI (%)	6.77%	5.83%

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2018	Date & Rating in FY2017		Date & Rating in FY2016 March 2016	Date & Rating in FY2015
					March 2017	April 2016		
Cash Credit	Long term	24.00		[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	24.00	[ICRA]BBB (Stable)

Source: Bimal Auto Agency India Pvt Ltd

## ANALYST CONTACTS

**Ravichandran K**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Ritika Periwal**

+91 80 49225562

[ritika.mundhra@icraindia.com](mailto:ritika.mundhra@icraindia.com)

**Srinivasan R**

+91 44 4596 4315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Vinodhini M**

+91 44 4297 4313

[vinodhini.m@icraindia.com](mailto:vinodhini.m@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
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Pune + (91 20) 6606 9999

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