

Bagga Link Service Limited

February 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit Working Capital Facility	2.00	2.00	[ICRA]BB+(Stable); Reaffirmed
Fund Based – Inventory Funding Working Capital Facility	6.00	6.00	[ICRA]A4; Reaffirmed
Total	8.00	8.00	

Rating action:

ICRA has reaffirmed its long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) and its short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) on the Rs. 8.00-crore¹ fund-based bank facilities of Bagga Link Service Limited (BLSL)². The outlook on the long-term rating is Stable.

Rationale:

The rating actions factor in the decline in sales turnover in FY2017 due to weak demand of three-wheelers in Delhi. The demand was low because of lesser permits issued by the Government of national capital region (NCR). The demand has increased again in the current fiscal as the government has issued 10,000 new three-wheeler permits for the NCR.

ICRA's ratings continue to take into account the extensive experience of BLSL's promoters in the vehicle-dealership business and the company's strong position as an authorised dealer of Bajaj Auto Limited's (BAL) three-wheeler and two-wheeler vehicles in the NCR. Moreover, the company's financial risk profile remains strong with comfortable capital structure and moderate debt-protection metrics.

However, the ratings continue to be constrained by the intense competition in BLSL's area of operations and the geographical-concentration risk owing to its presence only in the NCR. ICRA also takes note of the company's low net worth base, low profitability indicators and moderate performance of the three-wheeler segment in H1 FY2018.

Going forward, the company's ability to increase its scale of operations, improve profit margins and maintain optimum working-capital intensity will remain the key rating sensitivities.

Outlook: Stable

ICRA believes that BLSL will continue to benefit from the extensive experience of its promoters and its established track of operations in the NCR. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations and cash accruals. The outlook may be revised to Negative if cash accrual is lower than expected, or there is any major decline in sales turnover, or stretch in the working-capital cycle weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers:

Credit strengths

Extensive experience of promoters in auto-dealership business – The company has more than three decades of track record in the auto-dealership business as an authorised dealer for BAL’s two-wheelers and three-wheelers. The promoters have been in the auto-dealership business of more than five decades.

Positive outlook for three-wheelers in the NCR – The strong brand recognition of BAL in India and its continued market leadership as the largest three-wheeler manufacturer augur well for BLSL. Apart from this, the government’s decision to issue new three-wheeler permits is an additional advantage for the company. The demand for two-wheelers is expected to be stable in FY2018.

Healthy financial profile and low working-capital intensity – BLSL has a favourable capital structure due to low debt in the business and healthy interest and debt-coverage parameters. The company also has low working-capital intensity due to less debtors and inventory days.

Credit challenges

Decline in sales turnover in FY2017 due to weak demand of three-wheeler in the NCR – BLSL’s sales turnover declined ~16% in FY2017 due to the weaker demand from the three-wheelers segment in the NCR. The NCR government had issued lesser permits in FY2017. However, sales have picked-up again in the current fiscal as the government has issued new permits.

Inherently thin margins in auto-dealership business – The auto-dealership business is characterised by thin margins, weak bargaining position and low returns indicators.

Highly competitive market due to the trading nature of business – The company faces intense competition from other BAL dealers in the Delhi market and dealers of other manufacturers such as TVS, Piaggio etc. Given that auto-dealership is a trading business, the pricing power of dealers is limited.

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](#)

About the company

BLSL, established as a partnership firm in 1968, started off as a service station. In 1970, it became the authorised service station of BAL for its scooters. In the late 1970s, it started delivering BAL scooters to army personnel through the canteen stores department. In 1982, the company got the authorised dealership of BAL’s three-wheelers and its *M-80 model*, followed by Bajaj Chetak and Priya scooters. Subsequently, in 1989, it was converted into a private limited company, and has been successfully managing automobile dealerships of BAL since then. It sells two-wheelers (2W) and three-wheelers (3W) in the NCR and its adjacent areas, where it has 11 showrooms and 10 workshops. The promoter group also has a dealership of Maruti Suzuki India Limited and has two fuel pump stations in Delhi under the name of the Bagga Link Motors Limited.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	209.63	176.10
PAT (Rs. crore)	0.90	0.64
OPBDIT/OI (%)	1.01%	1.05%
RoCE (%)	10.73%	6.85%
Total Debt/TNW (times)	0.78	0.89
Total Debt/OPBDIT (times)	3.16	4.48
Interest Coverage (times)	10.98	8.16
NWC/OI (%)	3.8%	5.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 December 2015
1 Cash Credit	Long Term	2.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Inventory Funding	Short Term	6.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	2.00	[ICRA]BB+ (Stable)
NA	Inventory Funding	-	-	-	6.00	[ICRA]A4+

Source: Bagga Link Service Limited

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