

Press Release

KLN Motor Agencies Private Limited (KLN)

March 29, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.6.54 Cr (Enhanced from Rs.4.54 Cr)
Long Term Rating	SMERA B/Stable (Upgraded from SMERA B-/Stable)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs.4.28 cr bank facilities to '**SMERA B** (read as **SMERA B**) and assigned rating of **SMERA B/Stable** on the Rs.2.00 cr bank facility of KLN Motor Agencies Private Limited (KLN). The outlook is '**Stable**'.

SMERA has also withdrawn the rating of SMERA B- (read as SMERA B minus) with immediate effect on the Rs 0.26 cr term loan on account of full payment of dues against the rated facilities.

The ratings have been upgraded on account of improvement in revenue and profitability which is expected to be sustained. The ratings also draw comfort from the established position of the company (dealer of GM India for Chevrolet) in Chennai and its experienced management. However, the ratings are constrained by the modest financial risk profile and intense competition in the automobile industry.

List of key rating drivers and their detailed description

Weaknesses:

Modest financial risk profile: The company has a modest financial risk profile owing to high gearing of 4.58 times and low networth of Rs.4.10 cr as on March 31, 2016. The total debt of Rs.18.78 cr mainly includes short term borrowing of Rs.16.95 cr and long term loan of Rs.1.17 cr. The interest coverage stands low at around 1.24 times in FY2016.

Intense competition in the automobile industry: The company faces intense competition from dealers of other automobile companies such as Maruti Suzuki India Ltd, Hyundai Motor India Limited, Tata Motors Limited. The principal of KLN ie. GM India has a modest share of below 1 per cent in the Indian market inspite of having made attempts to expand its market share with introduction of new models like Chevrolet Spin, Chevrolet Trax, Chevrolet Orlando among others. Nevertheless, the future operating performance of KLN will depend on GM India's ability to gain market share in India.

Strengths:

Increase in revenue and improved profitability: The revenues have remained almost stagnant at Rs.83.10 cr in FY2016. However, as on December, 2016 (April to December) the company earned revenue of Rs.77.83 cr and sold around 938 cars till January, 2017. The total number of cars sold in

FY2016 was 878. Though the revenue growth of KLN is expected to be sustained, the pace of growth will remain sensitive to the overall performance of GM India (Chevrolet) in India.

The operating margins improved to 4.86 per cent in FY2016 from 4.35 per cent in FY2014 owing to control on the overheads and increase in sale of high value cars.

Experienced management: Mr. K. Chandrashekhar, the promoter possesses experience of around 17 years in the dealership business.

Established dealer of GM India: The company has been the sole authorised dealer for GM India (Chevrolet) since 2007 in Chennai.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that KLN will continue to maintain a stable outlook over the medium term owing to its experienced management and association with GM India. The outlook may be revised to 'Positive' in case the company registers significantly higher than expected growth while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company faces challenges in maintaining revenue growth or in case of deterioration in the financial risk profile on account of decline in margins or build up in inventory levels.

About the Rated Entity

KLN, incorporated in 2007, is a Chennai-based company promoted by Mr. K. Chandrasekar, Mr. Rajesh Ganapathy, and Mr. K. Annapurna. The company is an authorised dealer for passenger vehicles of General Motors (GM) India Private Limited (Chevrolet) in Chennai.

For FY2015-16, KLN reported profit after tax (PAT) of Rs.0.21 cr on operating income of Rs.83.10 cr, as compared to profit after tax (PAT) of Rs.0.07 cr on operating income of Rs.86.00 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016-II		FY2016-I		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Overdraft**	LT	4.00	SMERA B/Stable (Upgrade)	Mar 09	SMERA B-/Stable (Upgrade)	Nov 21	SMERA D (Assigned)	-	-
Term Loan I	LT	0.28	SMERA B/Stable (Upgrade)	Mar 09	SMERA B-/Stable (Upgrade)	Nov 21	SMERA D (Assigned)	-	-
Term Loan II	LT	0.26	SMERA B-/Stable (Withdrawal)	Mar 09	SMERA B-/Stable (Upgrade)	Nov 21	SMERA D (Assigned)	-	-
Proposed Loan	LT	2.00	SMERA B/Stable (Assigned)	-	-	-	-	-	-

** CVPOD – in lieu of Cash Credit hypothecation limit

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in cr)	Ratings/Outlook
Overdraft**	NA	NA	NA	4.00	SMERA B/Stable (Upgraded)
Term Loan I	NA	NA	NA	0.28	SMERA B/Stable (Upgraded)
Term Loan II	NA	NA	NA	0.26	SMERA B-/Stable (Withdrawal)
Proposed Loan	NA	NA	NA	2.00	SMERA B/Stable (Assigned)

** CVPOD – in lieu of Cash Credit hypothecation limit

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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