

Press Release

Kerala Cars Private Limited

23 April, 2018

Rating Downgraded



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|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 29.50 Cr. |
| Long Term Rating | SMERA BB/Outlook: Stable (Downgraded) |

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long-term rating on the Rs.29.50 crore bank facilities of Kerala Cars Private Limited (KCPL) to **'SMERA BB' (read as SMERA double B)** from **'SMERA BB+' (read as SMERA double B plus)**. The outlook is **'Stable'**.

The downgrade is in view of the subdued operating performance. The downgrade also factors in the liquidity pressures and debt servicing emanating from increase in debt funded capex.

Kerala Cars Private Limited (KCPL) based in Kochi (Kerala) commenced operations in 1999. The company is an authorised dealer of Ford Motor Company for sales and service. The company is led by Directors, Mr. Anish Gopalakrishnan Mohanan, Mr. Salil Venu, Mr. Umesh Mohanan and others. The facility is located at Edapally (Kerala). KCPL has 24 branches spread across central and southern Kerala.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

KCPL commenced operations in 1999 and benefits from its long track record of operations. The Director, Mr. Anish Gopalakrishnan Mohanan has experience of about 25 years in the business.

Comfortable working capital cycle

The working capital cycle stood comfortable on account of low GCA (Gross Current Asset) days of 57 in FY2017 which decreased from 63 days in FY2016. The improvement is marked by low inventory holding days of 29 and low receivable days of 5 in FY2017.

Weaknesses

Moderate financial risk profile

The net worth of the company stood moderate at Rs.30.93 crore in FY2017 as against Rs.30.23 crore in FY2016. The debt-equity increased to 2.15 times in FY2017 from 1.74 times in FY2016 on account of increase of debt. The ICR (Interest Coverage Ratio) improved to 1.52 times for FY2017 from 1.41 times in FY2016. The Total outside Liabilities/Tangible Net Worth stood high at 2.73 times in FY2017 which increased from 2.32 times in FY2016. The DSCR stood low at 0.95 times in FY2017, a fall from 1.23 times in FY2016.

Uneven margins

The EBITDA margin has been uneven at 2.24 percent in FY2017 compared to 2.72 percent in FY2016 and 3.00 percent in FY2015. While the PAT margin improved, it stood thin at 0.17 percent in FY2017 and 0.12 percent in FY2016.

Intense competition

KCPL faces competition from other automobile dealers including other established Ford dealers as well as other automobile dealers of Maruti Suzuki, Tata Motors and Honda Motors among others.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KCPL to arrive at the rating.

Outlook: Stable

SMERA believes that KCPL will maintain a 'Stable' outlook in the medium term owing to the extensive experience of its management and established position in Kerala. The outlook may be revised to 'Positive' in case of significant increase in profit leading to sizeable cash accrual. Conversely, the outlook may be revised to 'Negative' in case the liquidity is under pressure on account of lower cash accruals or if the company undertakes debt-funded capex.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 410.20 | 314.87 | 280.27 |
| EBITDA | Rs. Cr. | 9.20 | 8.57 | 8.42 |
| PAT | Rs. Cr. | 0.71 | 0.38 | -0.01 |
| EBITDA Margin | (%) | 2.24 | 2.72 | 3.00 |
| PAT Margin | (%) | 0.17 | 0.12 | 0.00 |
| ROCE | (%) | 8.56 | 10.15 | 16.51 |
| Total Debt/Tangible Net Worth | Times | 2.15 | 1.74 | 1.50 |
| PBDIT/Interest | Times | 1.52 | 1.41 | 1.41 |
| Total Debt/PBDIT | Times | 6.15 | 5.70 | 5.21 |
| Gross Current Assets (Days) | Days | 57 | 63 | 59 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|---------------------------------|-----------|--------------------|-------------------------------|
| 06-Mar-2017 | Inventory Funding | Long Term | 20.00 | SMERA BB+ / Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | SMERA BB+ / Stable (Assigned) |
| | Cash Credit | Long Term | 4.50 | SMERA BB+ / Stable (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA BB / Stable (Downgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.50 | SMERA BB / Stable (Downgraded) |
| Inventory Funding | Not Applicable | Not Applicable | Not Applicable | 20.00 | SMERA BB / Stable (Downgraded) |

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ABOUT SMERA

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