

Press Release

Lanson Motors Private Limited

November 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 170.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 170.00 crore bank facilities of LANSON MOTORS PRIVATE LIMITED (LMPL). The outlook is '**Stable**'.

Chennai based, LMPL was incorporated in 1998 by Mr. Lankalingam M. The company is an authorized dealer for Toyota Kirloskar Motor Limited (Toyota) in North Tamil Nadu and Puducherry. The company operates on 3S model (sales, service and spares) and also runs Toyota driving school.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of LMPL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operation and extensive experience of management

LMPL was promoted by Mr. Lankalingam M and Mrs. Reeta Lankalingam, the promoters of the company have been engaged in the same industry for more than two decades. Mr. Lankalingam M and Mrs. Reeta Lankalingam looked after the day to day operations of the company till August, 2019. Since September, 2019 after the demise of Mrs. Reeta Lankalingam, their son Mr. Sivanka Lankalingam has been taking an active role in managing the day to day operations of the company. Mr. Lankalingam M continues with his responsibilities as earlier. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established track record of over two decades and wide spread network of thirteen showrooms across Tamil Nadu and Puducherry.

Acuité believes that the company will continue to benefit from its wide spread presence and experienced management.

• Established principal – Toyota Kirloskar Motor Private Limited (Toyota)

LMPL has a relationship with established and reputed principal – Toyota with whom the company has been dealing since 2000. Toyota has gained market share in the first half of FY2020, going ahead of Tata Motors and Honda Cars India. This can be attributed to the launch of new vehicles. Yaris – launched in the previous year and Glanza – launched June 2019 have helped Toyota achieve this growth.

Acuité believes that the company will continue to benefit from its long term relationship with principal- Toyota Kirloskar Motor Private Limited.

• Improving operating and PAT margins

The company's improving profitability is reflected increasing operating and PAT margins. Operating margins increased to 4.00 per cent in FY19 (provisional) from 2.65 per cent in FY17. PAT margins increased to 1.06 per cent in FY19 (provisional) from 0.30 per cent in FY17. The improving PAT margins can be attributed to decline in interest costs while the increase in operating margins can be attributed to decrease in material costs a percentage of total sales. It stood at 82.45 per cent in FY19 (provisional) from 88.86 per cent in FY17.

Weaknesses

• Average financial risk profile

The financial risk profile of the company is average marked by moderate tangible network of Rs. 38.35 crore as on 31 March, 2018 (Provisional) as against Rs. 31.38 crore in the previous year. The gearing stood high at 3.15 times as on 31 March, 2019 (Provisional) as against 3.68 times in the previous year. The total debt of Rs. 120.83 crore as on 31 March, 2019 (provisional) includes long term debt of Rs. 39.25 crore and short term borrowings of Rs. 74.47 crore. The Interest Coverage Ratio improved to 2.37 times for FY2019 (provisional) as against 2.00 times in the previous year. The improvement in coverage ratio is on account of steep improvement in EBITDA coupled with decline in interest cost. The annual principal repayment obligation for FY19 and FY20 is Rs. 10.28 crore and Rs. 7.10 crore respectively. The total outside liabilities to tangible network (TOL/TNW) stood at 5.04 times for FY2019 (provisional) as against 5.93 times in FY2018.

Acuite expects the company to improve its financial risk profile going forward supported by growth in net cash accruals and moderate working capital requirement.

• Stiff competition from other dealers of Toyota and dealers of other manufacturers

The company faces stiff competition from other dealers of Toyota and other automobile companies such as Maruti Suzuki, Tata Motors, Mahindra and Mahindra and Honda etc. The launching of new models at competitive prices by other players can impact the market share of Toyota which in turn can affect its dealers including LMPL.

Rating Sensitivities

- An improvement in the liquidity with positive cash flow from operations and interest coverage above 2.5x, on a sustained basis will be a key monitorable.
- Improvement in revenues along with sustained profitability will be a key monitorable.

Material Covenants

None

Liquidity Position: Stretched

LMPL's liquidity is stretched marked by net cash accruals of Rs. 13.33 crores against long term obligations of Rs. 10.28 crores for FY 2019(Provisional). The accruals are expected to remain adequate over medium term on account of improving margins. However, current ratio has remained low at 0.76 as on March 31, 2019 (Provisional) and 0.65 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low current ratio.

Outlook: Stable

Acuite believes that LMPL will maintain a Stable outlook and continue to benefit over the medium term from its established association with TKMPL and extensive experience of its management in the business. The outlook may be revised to 'Positive' in case the company registers substantial revenue growth while maintaining stable profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenue or deterioration in the financial risk profile on account of higher than expected working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	770.31	770.48	885.95
EBITDA	Rs. Cr.	30.81	30.92	23.49
PAT	Rs. Cr.	8.17	4.94	2.65
EBITDA Margin	(%)	4.00	4.01	2.65
PAT Margin	(%)	1.06	0.64	0.30
ROCE	(%)	16.30	15.21	12.90
Total Debt/Tangible Net Worth	Times	3.15	3.68	4.16

PBDIT/Interest	Times	2.37	2.00	1.65
Total Debt/PBDIT	Times	3.85	3.72	4.87
Gross Current Assets (Days)	Days	54	45	46

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

CRISIL vide its press release dated 11 September, 2018 has mentioned the rating of LMPL to 'CRISIL BB-/Stable/A4+' Issuer not cooperating as on 11-Sept-2018.

Any other information

LMPL had three directors until August, 2019 – Mr. Lankalingam M, Mrs. Reeta Lankalingam and Mr. Sivanka Lankalingam. In September, 2019 Mrs. Reeta Lankalingam passed away. Since her demise, Mr. Sivanka Lankalingam has been taking a more active role in the day to day operations of the company and Mr. Lankalingam continues in his responsibilities as earlier.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
24-August-2018	Trade Advance	Short Term	10.00	Acuite A4+ (Reaffirmed)
	Inventory Funding - EDFs	Short Term	53.50	Acuite A4+ (Reaffirmed)
	Trade Advance	Short Term	5.00	Acuite A4+ (Reaffirmed)
	Trade Advance	Short Term	5.00	Acuite A4+ (Reaffirmed)
	Inventory Funding	Short Term	24.50	Acuite A4+ (Reaffirmed)
	Inventory Funding	Short Term	11.00	ACUITE A4+ (Reaffirmed)
	Trade Advance	Short Term	23.65	ACUITE A4+ (Reaffirmed)
	Term Loan I	Long Term	18.15	ACUITE BB/Stable (Reaffirmed)
	Term Loan II	Long Term	12.48	ACUITE BB/Stable (Reaffirmed)
	Term Loan III	Long Term	2.19	ACUITE BB/Stable (Reaffirmed)
	Term Loan IV	Long Term	2.13	ACUITE BB/Stable (Reaffirmed)
	Term Loan V	Long Term	2.10	ACUITE BB/Stable (Reaffirmed)
31-May-2017	Trade Advance	Short Term	5.00	ACUITE A4+ (Assigned)
	Inventory Funding - EDFs	Short Term	39.00	ACUITE A4+ (Assigned)

	Inventory Funding	Short Term	5.00	ACUITE A4+ (Assigned)
	Trade Advance	Short Term	1.00	ACUITE A4+ (Assigned)
	Inventory Funding	Short Term	17.90	ACUITE A4+ (Assigned)
	Inventory Funding	Short Term	11.00	ACUITE A4+ (Assigned)
	Inventory Funding	Short Term	25.00	ACUITE A4+ (Assigned)
	Term Loan I	Short Term	9.36	ACUITE BB/Stable (Assigned)
	Term Loan II	Long Term	7.50	ACUITE BB/Stable (Assigned)
	Term Loan III	Long Term	3.97	ACUITE BB/Stable (Assigned)
	Term Loan IV	Long Term	2.72	ACUITE BB/Stable (Assigned)
	Term Loan V	Long Term	2.52	ACUITE BB/Stable (Assigned)
	Term Loan VI	Long Term	18.77	ACUITE BB/Stable (Assigned)
	Proposed Fund Based Facility	Short Term	1.26	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Trade Advance	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Reaffirmed)
Inventory Funding E-DFS	Not Applicable	Not Applicable	Not Applicable	53.50	ACUITE BB/Stable (Reaffirmed)
Trade Advance	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	25.00 (Enhanced from 24.50 crore)	ACUITE BB/Stable (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB/Stable (Reaffirmed)
Trade Advance	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/Stable (Reaffirmed)
Term Loan-I	Not Applicable	Not Applicable	Not Applicable	16.79	ACUITE BB/Stable (Reaffirmed)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	12.14	ACUITE BB/Stable (Reaffirmed)
Term Loan-III	Not Applicable	Not Applicable	Not Applicable	0.36	ACUITE BB/Stable (Reaffirmed)

Term Loan-IV	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BB/Stable (Reaffirmed)
Term Loan-V	Not Applicable	Not Applicable	Not Applicable	1.74	ACUITE BB/Stable (Reaffirmed)
Term Loan-V	Not Applicable	Not Applicable	Not Applicable	8.67	ACUITE BB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	27.32	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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