

Press Release

Lanson Motors Private Limited

February 05, 2021

Rating Reaffirmed and Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned its 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. M Lankalingam and his wife Mrs. Reeta Lankalingam. Currently, the company is managed by Mr. M Lankalingam and son Mr. Sivanka Lankalingam. The company is an authorized dealer for Toyota Kirloskar Motor Private Limited (TKMPL) in North Tamil Nadu and Puducherry. The company operates on 3S model (sales, service and spares) and also runs Toyota driving school.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of LMPL to arrive at a rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

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.

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

• Moderate financial risk profile

The financial risk profile of LMPL is modest marked by moderate tangible net worth of Rs. 47.38 crore as on 31 March, 2020 (Provisional) as against Rs. 38.35 crore in the previous year. The gearing improved to 1.80 times as on 31 March, 2020 (Provisional) as against 3.15 times in the previous year. This is on account of improved profitability leading to better accretion of reserves. Secondly, debt has reduced as the company has improved its working capital cycle and also on account of reduction in scale of operations. Improved profitability has also led to improvement in coverage indicators. Interest coverage ratio has 2.76 times in FY2020 against 2.37 times in FY2019. DSCR improved to 1.45 times in FY2020 against 1.23 times in FY2019. The total debt of Rs. 85.29 crores as on 31 March, 2020 (provisional) includes long term debt of Rs. 50.49 crore and short term borrowings of Rs. 34.80 crore. The Total outside Liabilities to Tangible Net worth (TOL/TNW) stood at 2.89 times for FY2020 (provisional) as against 5.04 times in FY2019.

Acuite believes that LMPL will be able to sustain its financial risk profile in the absence of significant debt funded capex.

Weaknesses

• Decline in scale of operations

LMPL reported operating income of Rs. 630.99 crore in FY2020 (Provisional) against Rs. 770.31 crore in FY2019. This decline can be attributed to overall slowdown in automotive industry in FY2020. Also, from April 2020 BS VI emission norms have been adopted. Lack of variety in Toyota's product portfolio for the entry level and mid-size hatchback segment for replacement of its Etios model has also had an adverse impact on the LMPL's revenue. Decline of Toyota's overall market share vis-à-vis other automobile manufacturers has also led to the decline in LMPL's revenues. LMPL's has sold 2945 units in FY2020. For 9M FY2021 LMPL's revenue has further declined to ~Rs. 258.68 Crore (~Rs. 473.00 crore). This decline is primarily on account of lockdown brought on by COVID 19 lockdown. LMPL's showrooms were shut down for April and May 2020. Gradually opening up from July 2020. However, the decline in car sales is partially mitigated by relatively stable revenue generated from servicing and sale of spare parts.

LMPL's profitability has remained stable despite decline in operating revenue. Operating profit margins stood at 4.68 percent in FY2020 (Provisional) against 4.00 percent in FY2019. The net profit margin of the company has stood at 1.43 per cent in FY2020 (Provisional) from 1.06 percent in FY2019.

Acuite believes that LMPL's ability to restrict further decline scale of operations will be a key rating sensitivity.

• 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.

Liquidity Position: Stretched

LMPL generated cash accruals of Rs. 9.40 to 15.19 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs. 7.10-11.08 crore per annum. The cash accruals of LMPL are estimated to remain around Rs. 7.85 to 16.92 crore during 2021-23 while its repayment obligations are estimated to be around Rs. 7.30-7.50 crore. The cushion has between the repayment obligations and net cash accruals is expected to remain stretched over the next year on account of adverse impact of COVID on the operating performance. LMPL's working capital cycle is efficiently managed which has led to lower reliance on working capital borrowings, the cash credit limit in LMPL remains utilized at ~30 percent during the last 6 months period ended December 2020. LMPL has unencumbered cash and bank balances of Rs. 0.98 crore as on March 31, 2020 (Provisional). The current ratio of LMPL stands stretched at 0.76 times as on March 31, 2020 (Provisional).

The liquidity of LMPL is expected to remain stretched over the medium term on account of lower cushion between net cash accruals and repayments partially mitigated by the substantial unutilized working capital limits.

Material Covenants

None

Rating Sensitivities

- Ability to maintain stable financial risk profile.
- Ability to restrict further decline scale of operations will be a key rating sensitivity.

Rating 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	630.99	770.31
PAT	Rs. Cr.	9.03	8.17
PAT Margin	(%)	1.43	1.06
Total Debt/Tangible Net Worth	Times	1.80	3.15
PBDIT/Interest	Times	2.76	2.37

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

Crisil vide its press release dated 06-December-2019 has mentioned rating of LMPL as 'CRISIL B+/Stable/A4' Issuer not Co-operative as on 06-December-2019

Any other information

None

Applicable Criteria

- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
7-November-2019	Trade Advance	Long Term	4.00	ACUITE BB/Stable (Reaffirmed)
	Inventory Funding E-DFS	Long Term	53.50	ACUITE BB/Stable (Reaffirmed)
	Trade Advance	Long Term	5.00	ACUITE BB/Stable (Reaffirmed)
	Inventory Funding	Long Term	25.00 (Enhanced from 24.50 crore)	ACUITE BB/Stable (Reaffirmed)
	Inventory Funding	Long Term	11.00	ACUITE BB/Stable (Reaffirmed)
	Trade Advance	Long Term	3.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan-I	Long Term	16.79	ACUITE BB/Stable (Reaffirmed)
	Term Loan-II	Long Term	12.14	ACUITE BB/Stable (Reaffirmed)
	Term Loan-III	Long Term	0.36	ACUITE BB/Stable (Reaffirmed)
	Term Loan-IV	Long Term	1.48	ACUITE BB/Stable (Reaffirmed)
	Term Loan-V	Long Term	1.74	ACUITE BB/Stable (Reaffirmed)

	Term Loan-V	Long Term	8.67	ACUITE BB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	27.32	ACUITE BB/Stable (Reaffirmed)
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	3.00	ACUITE BB/Stable (Reaffirmed)
Cash Credit	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	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	02-Feb-18	Not Applicable	05-Jun-28	16.21	ACUITE BB/Stable (Reaffirmed)
Term Loan-II	20-Apr-18	Not Applicable	01-May-28	11.76	ACUITE BB/Stable (Reaffirmed)
Term Loan-III	Not Available	Not Applicable	Not Available	0.36	ACUITE BB/Stable (Reaffirmed)
Term Loan-IV	02-Feb-18	Not Applicable	05-Jun-28	8.05	ACUITE BB/Stable (Assigned)
Term Loan-V	10-Jul-12	Not Applicable	10-Jan-22	0.73	ACUITE BB/Stable (Reaffirmed)
Term Loan-VI	10-Sep-14	Not Applicable	10-Oct-23	1.28	ACUITE BB/Stable (Reaffirmed)
Term Loan-VII	31-Aug-18	Not Applicable	02-Sep-24	6.87	ACUITE BB/Stable (Reaffirmed)
Term Loan-VIII	10-Nov-19	Not Applicable	10-Nov-23	1.33	ACUITE BB/Stable (Assigned)
Term Loan – IX	02-Feb-20	Not Applicable	02-Jan-24	0.66	ACUITE BB/Stable (Assigned)
Term Loan - X	20-Jun-20	Not Applicable	20-May-23	0.59	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.66	ACUITE BB/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041</p> <p>aditya.gupta@acuite.in</p> <p>Parth Pandit Analyst - Rating Operations Tel: 022-49294032</p> <p>parth.pandit@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011</p> <p>rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.