

Press Release

Karan Automotives Private Limited (KAPL)

June 06, 2019

Rating Update



Total Bank Facilities Rated*	Rs. 13.50 crore
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed, Assigned & Withdrawn)
Short Term Rating	ACUITE A4+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed a long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 4.85 crore bank facilities of Karan Automotives Private Limited (KAPL). The outlook is '**Stable**'.

Acuite has assigned a long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 8.65 crore bank facilities of Karan Automotives Private Limited (KAPL).

Acuite has withdrawn the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 6.00 crore bank facility and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 2.50 crore bank facility of Karan Automotives Private Limited (KAPL). The rating has been withdrawn on account of 'No Dues Certificate' received from the banker.

Delhi based Karan Automotives Private Limited (KAPL) was established as proprietorship firm in 1998 by Mr. Ravinder Singh and subsequently constitution has been changed to a private limited company in 2003. The company is engaged in the manufacturing all kinds of manipulated tubular components, sheet metal parts, precision turned components and their fabricated assemblies for automobile industry and general engineering industry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced track record of operations and experienced management**

KAPL was established as proprietorship firm in 1998 by Mr. Ravinder Singh and subsequently converted into a private limited company in 2003. Mr. Ravinder Singh has an experience of more than three decades in the industry. Backed by their experience they have been able to maintain long term relations with their customers, primary customer being Maruti Suzuki India Limited and Honda Motors Company Limited. Acuite believes the company will benefit from its experienced management which helps the company maintain long standing relations with reputed customers and suppliers.

- **Diversified and reputed clientele**

KAPL benefits from reputed clientele as the company manufactures components for the automobile industry (4 wheelers and 2 wheelers) and engineering industry. The company generates around 80 per cent of its revenues from the four-wheeler and two-wheeler segment. Further, the company generates more than 50 per cent of its revenue by selling its products to Maruti Suzuki Limited and Honda Motorcycle & Scooters India Ltd.

Weaknesses

• Below average financial risk profile

KAPL has below average financial risk profile marked by moderate net worth, and debt protection metrics. Company's net worth stood at Rs. 7.36 crore as on March 31, 2018 as against Rs. 7.02 crore as on March 31, 2017, owing to moderate accretion to reserves due to moderate profitability. Gearing levels (debt-to-equity) stood at 2.56 times in FY2018 as against 2.64 times in FY2017. Further, the interest coverage ratio stood at 1.74 times for FY2018 as compared to 1.60 times for FY2017. Total outside liabilities to total net worth (TOL/TNW) stood at 8.54 times in FY2018 vis-à-vis 7.78 times in FY2017. Acuite believes that financial risk profile of the company is likely to remain moderate over the medium term on account of moderate net worth and debt protection metrics and that the company's ability to improve its gearing levels will remain key sensitivity.

• Working capital intensive operations

KAPL has intensive working capital operations marked by gross current assets (GCA) of 182 days in FY2018 as compared to 170 days in FY2017. This is on account of debtors' collection period of 101 days in FY2018 as against 109 days in FY2017 and inventory holding period of 44 days in FY2018 as against 43 days in FY2017. The average cash credit utilization for the past six months stood at ~95 percent. Acuite believes that the working capital operations of KAPL will continue to remain intensive on account of level of inventory to be maintained and the credit given to its customers.

Liquidity position

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 1.60 crore for FY2018 while its maturing debt obligations were Rs. 1.59 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 1.77 crore to Rs. 2.73 crore during 2019-21 against repayment obligations in the range of around Rs.1.00 crore to Rs.1.15 crore. The company's working capital operations are moderate marked by gross current asset (GCA) days of 182 days for FY2018. The company maintains unencumbered cash and bank balances of Rs. 1.74 crore as on 31 March 2018. The current ratio stands at 1.01 times as on 31 March 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that KAPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than- expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	110.38	98.92	94.42
EBITDA	Rs. Cr.	4.11	4.25	4.10
PAT	Rs. Cr.	0.32	0.31	0.40
EBITDA Margin	(%)	3.72	4.29	4.34
PAT Margin	(%)	0.29	0.31	0.42
ROCE	(%)	10.59	11.83	11.11
Total Debt/Tangible Net Worth	Times	2.56	2.64	2.70
PBDIT/Interest	Times	1.74	1.60	1.77
Total Debt/PBDIT	Times	4.52	4.33	4.40
Gross Current Assets (Days)	Days	182	170	163

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
21-March-2018	Cash Credit	Long-Term	6.00	ACUITE BB-/Stable (Assigned)
	Overdraft	Long-Term	2.65	ACUITE BB-/Stable (Assigned)
	Term Loan	Long-Term	2.35	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short-Term	2.50	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB- (Withdrawn)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.65	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BB-/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4.30	ACUITE BB-/ Stable (Assigned)
Inventory Funding Facility	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE BB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4+ (Withdrawn)

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About Acuite Ratings & Research:

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