

Press Release

Karan Automotives Private Limited

October 20, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs. 13.50 crore*
Long Term Rating	ACUITE BB-/ Outlook: Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 13.50 crore bank facilities of Karan Automotives Private Limited (KAPL). The outlook is '**Stable**'.

The rating revision is in view of the receipt of critical information.

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

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

KAPL was established as a 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, the primary customer being Maruti Suzuki India Limited and Honda Motors Company Limited. Acuité believes the company will benefit from its experienced management which helps the company maintain long-standing relations with reputed customers and suppliers.

Weaknesses

- **Below average financial risk profile**

The company has an average financial risk profile marked by average net worth, and debt protection metrics. The company's net worth stood at Rs. 8.99 crore as on March 31, 2020 (Provisional) as against Rs. 7.88 crore as on March 31, 2019, marked by improved profitability. Gearing levels (debt-to-equity) stood at 2.37 times as on March 31, 2020 (Provisional) as against 2.69 times as on March 31, 2019. Further, the interest coverage ratio stood at 1.64 times for FY2020 (Provisional). Total outside liabilities to total net worth (TOL/TNW) stood at 6.04 times as on FY2020 (Provisional) vis-à-vis 8.06 times as on FY2019.

- **Working capital intensive operations**

The company has working capital intensive nature of operations, as reflected in gross current assets (GCA) of 171 days as on March 31, 2020 (Provisional) as compared to 162 days as on March 31, 2019. This deterioration is on account of higher inventory as well as debtor days. Debtor days stood at 108 days as on March 31, 2020 (Provisional) as against 86 days as on March 31, 2019 and inventory days stood at 58 days as on March 31, 2020 (Provisional) as against 48 days as on March 31, 2019.

Rating Sensitivity

- Significant improvement in its working capital management.
- Decline in profitability levels, thereby impacting firm's debt coverage indicators.

Material Covenants

None

Liquidity: Stretched

The company has stretched liquidity marked by lower net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 1.68 crore for FY2020 (Provisional) as against Rs. 2.65 crore of repayment obligations for the same period. The company maintains unencumbered cash and bank balances of Rs. 0.84 crore as on 31 March 2020 (Provisional). Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accrual.

Outlook: Stable

Acuité believes that KAPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	99.35	122.43
PAT	Rs. Cr.	0.25	0.30
PAT Margin	(%)	0.26	0.25
Total Debt/Tangible Net Worth	Times	2.37	2.69
PBDIT/Interest	Times	1.64	1.68

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
August 20, 2020	Overdraft	Long-Term	2.65	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Term Loan	Long-Term	2.20	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Term Loan	Long-Term	1.70	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Term Loan	Long-Term	2.00	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Working Capital Demand Loan	Long-Term	4.30	ACUITE B+ (Downgraded; Issuer not co-operating*)
	Inventory Funding Facility	Long-Term	0.65	ACUITE B+ (Downgraded; Issuer not co-operating*)
June 06, 2019	Cash Credit	Long-Term	6.00	ACUITE BB-/ Stable (Withdrawn)
	Overdraft	Long-Term	2.65	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long-Term	2.20	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long-Term	1.70	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long-Term	2.00	ACUITE BB-/ Stable (Assigned)
	Working Capital Demand Loan	Long-Term	4.30	ACUITE BB-/ Stable (Assigned)
	Inventory Funding Facility	Long-Term	0.65	ACUITE BB-/ Stable (Assigned)
	Letter of Credit	Short Term	2.50	ACUITE A4+ (withdrawn)
March 21, 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
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.65	ACUITE BB-/ Stable (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	1.80	ACUITE BB-/ Stable (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	1.70	ACUITE BB-/ Stable (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	2.00	ACUITE BB-/ Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Available	4.30	ACUITE BB-/ Stable (Upgraded)
Inventory Funding Facility	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE BB-/ Stable (Upgraded)
Proposed Banking Facilities	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE BB-/ Stable (Upgraded)

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About Acuité Ratings & Research:

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