

Press Release

KANCHANA UDYOG

December 05, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.10.00 crore bank facilities of Kanchana Udyog. The outlook is '**Stable**'.

Karnataka based Kanchana Udyog (Kanchana) is a proprietary concern established in December 2013 by Mr. Prasadraj Kanchan. The firm is engaged in the business of two-wheeler dealership for Honda Motorcycle and Scooter India Private Ltd (HMSL). The entity has 5 showrooms and service centers located at Kankanady, BC Road, Vittal, Thokkottu and Kuloor. The showrooms are located in and around Mangalore (Karnataka).

Analytical Approach

Acuité has considered standalone financials and business risk profiles of Kanchana to arrive at this rating.

Key Rating Drivers

Strengths

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

Mr. Prasadraj Kanchan, Promoter, has more than 10 years of experience in the dealership business. He is well supported by his wife Mrs. Sukanya Kanchan with a decade of experience in the current business. The promoters also have dealerships for TVS Motors Company Limited, Ashok Leyland Limited and Hyundai Motor India Limited under various private limited/partnership concerns.

Acuité believes that the firm will continue to benefit from its experienced management and established relations with its principal.

- **Moderate financial risk profile**

The firm has followed a moderately aggressive financial policy in the past; the same is reflected through its peak gearing levels of 6.97 times as on March 31, 2017. The leverage levels however have improved to around 0.89 times as on March 31, 2019 on account of capital infusion of Rs.5 crore in FY2019. Though the net worth is modest, it has improved to Rs.7.84 crore as on March 31, 2019 as against Rs.2.53 crore as on March 31, 2018. Of the total debt of Rs.7.01 crore as on March 31, 2019, long term debt constitutes Rs.1.10 crore and working capital debt of Rs.5.91 crore. Interest coverage ratio and debt service coverage ratio stood moderate at 1.44 times 1.11 times in FY2019 respectively. Total outside liabilities to total net worth improved to 1.08 times as on March 31, 2019 as against 4.65 times as on March 31, 2018.

Acuité believes that financial risk profile is expected to remain moderate with no debt funded capital expenditure plans and modest accretions to reserves.

Weaknesses

- **Decline in profitability margins**

Operating margins of the firm has declined to 3.40 percent in FY2019 from 5.74 percent in FY2018. Net profit margins of the firm also declined to 0.26 percent in FY2019 from 3.08 percent in FY2018. Profitability has declined due to decrease in income from high profitable insurance commission on account of change in guidelines of IRDA and repairs activity in existing plant.

• **Modest revenue profile and geographic concentration risk in a highly competitive industry**

MFPL's operating in a highly competitive auto dealership industry which reflected in modest revenues of Rs.66.17 crore in FY2019 and Rs.52.76 crore in FY2018. The firm reported revenues of Rs.30.01 crore 7MFY2020 (April-October 2019). Revenues of the firm are expected to remain in similar range of about Rs.66-68 crore for FY2020 due to slow down in the automobile industry. Further, the firm is exposed to geographic concentration risk as all the five showrooms are located in Mangalore district. The ratings remain constrained by the inherent cyclical in the automobile sector and subdued outlook.

Liquidity position:

Kanchana has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm has generated cash accruals of Rs.0.64 crore for 2018-19, while its maturing debt obligations were in the range of Rs.0.42 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.1-1.15 crore during 2020-22 while its repayment obligation is estimated to be around Rs. 0.30-0.42 Crore. The firm's operations are efficiently managed as marked by gross current asset (GCA) days of 44 days in FY 2019. The working capital limit in the firm remains utilized at 93 percent during the last six months period ended October 2019. The company maintains unencumbered cash and bank balances of Rs.0.35 crore as on March 31, 2019. The current ratio of the firm stands moderate at 1.08 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Rating Sensitivities

- Improvement in revenues and profitability margins.
- Deterioration of financial risk profile or withdrawal of funds from the firm.

Outlook: Stable

Acuité believes that the outlook on KU will remain 'Stable' over the medium term on account of the experience of the promoters in the dealership business. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	66.17	52.76
PAT	Rs. Cr.	0.17	1.62
PAT Margin	(%)	0.26	3.08
Total Debt/Tangible Net Worth	Times	0.89	3.40
PBDIT/Interest	Times	1.44	2.38

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
03-Oct-2018	Cash Credit	Long Term	4.50	ACUITE BB- / Stable (Assigned)
	Working Capital Term Loan	Long Term	3.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.20	ACUITE BB- / Stable (Assigned)
	Inventory Funding	Long Term	1.30	ACUITE BB- / Stable (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	5.88 (Enhanced from Rs.4.50 crore)	ACUITE BB- / Stable (Reaffirmed)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.87	ACUITE BB- / Stable (Reaffirmed)
Cash Credit (E-DFS)	Not Applicable	Not Applicable	Not Applicable	3.00 (Enhanced from Rs.1.30 crore)	ACUITE BB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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