

Press Release

Kanchana Udyog

March 04, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

Kanchana Udyog is a Karnataka based proprietorship concern established in the year 2013 by Mr. Prasadraj Kanchan. The firm is engaged in the business of two-wheeler dealership for Honda Motorcycle and Scooter India Private Limited. The entity has 5 showrooms and service centers located in and around Mangalore (Karnataka).

Analytical Approach

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

Key Rating Drivers

Strengths

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

KU was established in the year 2013. KU has a track record of over seven years of operation and is engaged in the two-wheeler dealership for Honda Motorcycle and Scooter India Private Limited. The proprietor of the firm- Mr.Praadraj Kanchan has more than a decade of experience in the dealership business. The proprietor of the firm is well supported by Mrs. Sukanya Kanchan with a decade of experience in the aforementioned industry. The promoters also have dealerships for TVS Motors Company Limited, Ashok Leyland Limited and Hyundai Motor India Limited under various private limited and partnership concerns. The extensive experience of the promoters and established track record of operation has helped the firm to develop healthy relationship with its customers.

Acuité expects that the firm will continue to benefit from its experienced management and long track of association with Honda Motorcycle and India Private Limited.

- **Working capital operation is efficient in nature**

KU's working capital operation is efficiently managed as it is reflected by its Gross Current Asset (GCA) days of around 65 in FY2020 as against 44 days in FY2019. The firm has maintained an inventory holding period 30 days as on March 31, 2020 as against 23 days as on March 31, 2019. The debtor collection period stood at 21 days as on March 31, 2020 as against 20 days as on March 31, 2019. On the other hand, the firm's credit payment period stood at 12 days as on March 31, 2020 as against 5 days as on March 31, 2019. As a result, the reliance on working capital limit is high, leading to high utilization of bank line at an average of 89.56 percent over the last 6 months through November 2020, while its peak utilization was high at around 96.67 percent during the same period.

Acuité expects the working capital management to remain efficient over the medium term on account of moderate inventory holding period and limited credit period offered to its customer.

- **Moderate Financial Risk Profile**

KU's financial risk profile is moderate marked by modest net worth, high gearing coupled with moderate debt protection metrics and coverage indicators. The firm's net worth stood at Rs.6.17Cr as on March 31, 2020 as against Rs.7.84Cr as on March 31, 2019. The firm has followed aggressive financial policy in the past. The gearing remains high at 1.70 times as on March 31, 2020 as against 0.89 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 2.17 times as on March 31, 2020 as against 1.08 times as on March 31, 2019. The firm on the other hand generated cash accruals of Rs.0.82Cr in FY2020 as against Rs.0.64Cr in FY2019. KU's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.0.90Cr to Rs.1.30Cr.

The improvement in the profitability level, coupled with moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.08 times and 1.69 times, respectively. The debt service coverage ratio stood 1.25 times in FY2020 as against 1.11 times in FY2019. The Debt-EBITDA ratio stands at 5.21 times in FY2020.

Acuité believes the financial risk profile of the firm will continue to remain moderate on account of its modest accretions to reserves and no major debt funded capex in near to medium term.

Weaknesses

- **Moderate scale of operations and decline in the profitability margins**

KU has moderate scale of operation marked by operating income of Rs.62.75Cr in FY2020 as against Rs.66.17Cr in FY2019. The decline in the revenue in FY2020 is due to slow down in the automobile industry. The slowdown in the Indian automobile industry was due to economic slowdown, transition from BS-IV to BS-VI Norms, Covid-19 pandemic and subsequent lockdown. However, long association with HMSIL and long track record of operation helped the firm to maintain moderate revenue. The firm was able to sell a total of 9603 units of new vehicles, which includes 8737 units of Scooters and 866 units of bike. During the current financial year the firm has been able to sell 7652 units of new vehicles for the last 10 months through January 2021, considering the fact that the firm has booked zero sales in the month of April-2020 due to nationwide lockdown in view of outbreak of Covid-19 pandemic. EBITDA has been declining for the last three years under the study and stood at Rs.1.99Cr in FY2020 as against Rs.2.25Cr in FY2019. PAT of the firm has improved to Rs.0.33Cr in FY2020 as against Rs.0.17Cr in FY2019. The profitability margin of the firm has been declining for the last three years under the study. The operating margin stood at 3.17 percent in FY2020 as against 3.40 percent in FY2019. The net profit margin stood at 0.53 percent in FY2020 as against 0.26 percent in FY2019. The decline in the profitability margin is due to decrease in the income from high profitable insurance commission on account of change in the guidelines of IRDA and repair activity in the existing units.

Acuité believes that the revenue of the firm will improve over the near to medium term on account of long association with HMSIL will help the firm to revive back during this pandemic situation.

- **Limited bargaining power with the suppliers and exposure to intense competition**

KU faces competition from other dealers of HMSIL and established players in this segment such as Hero Motorcorp, Bajaj, Yamaha and Suzuki, among others operating in Mangalore, Karnataka. However, this risk is mitigated to some extent due to long track record of operation of the firm and experienced management. Sale of vehicles is subjected to change in consumer tastes and popularity of the model of the vehicle. Acuité expects that the growth prospect of KU is entirely dependent on the overall growth of HMSIL.

Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals against its maturing debt obligations. The firm generated cash accruals of Rs.0.82Cr in FY2020, while the maturing debt obligation were Rs.0.42Cr for the same period. The cash accrual of the firm is estimated to remain around Rs.0.90Cr to Rs.1.30Cr during 2021-23, while its repayment obligation is estimated to be around Rs.0.28Cr to Rs.0.90Cr during the same period. The firm's working capital operation is efficient in nature marked by the Gross Current Asset (GCA) days of 65 days in FY2020 as against 44 days in FY2019. The average bank limit utilization stood high at around 89.56 per cent for six months ended November, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.29Cr as on 31 March 2020. The current ratio of the firm has improved to 0.94 times as on 31 March 2020 from 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 accruals against its maturing debt obligations.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Any stretch in the working capital cycle will lead to increase reliance on working capital borrowings

Outlook: Stable

Acuité believes that the firm will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and efficient working management. The outlook may be revised to 'Positive', if the firm registers higher than expected growth in its revenue while improving its operating margins from its current levels along with healthy financial risk profile. Conversely, the outlook may be revised to 'Negative', if the firm 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 the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	62.75	66.17
PAT	Rs. Cr.	0.33	0.17
PAT Margin	(%)	0.53	0.26
Total Debt/Tangible Net Worth	Times	1.70	0.89
PBDIT/Interest	Times	1.69	1.44

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-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Dec-2019	Working Capital Term Loan	Long Term	0.25	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BB-/Stable (Reaffirmed)
	Cash Credit	Long Term	5.88	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long Term	0.87	ACUITE BB-/Stable (Reaffirmed)
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

*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	3.00	ACUITE BB-/Stable (Reaffirmed)
Term Loan	October 19, 2015	8.10	September 30,2022	0.52	ACUITE BB-/Stable (Reaffirmed)
Working Capital Term Loan-I (GECL)	Not Applicable	Not Applicable	Not Applicable	0.48	ACUITE BB-/Stable (Reaffirmed)
Working Capital Term Loan-II (GECL)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Reaffirmed)
Inventory Funding-I	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB-/Stable (Reaffirmed)
Inventory Funding-II	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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