

Press Release

Kanchana Udyog

July 22, 2022



Rating Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|-------------------------------|-------------------|
| Bank Loan Ratings | 10.00 | ACUITE BB Stable Upgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 10.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

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

Rationale for rating upgrade

The rating upgrade takes into account improvement in KU's financial risk profile and efficient working capital management. It also draws comfort from the firm's experienced management and established track record of operations. The rating is however constrained by the firm's decline in revenue. Ability of the firm to improve its revenue while maintaining its operating and profitability margin will continue to remain a key rating sensitivity factor.

About the Company

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 (HMSIPL). The entity has 5 showrooms and service centers located in and around Mangalore (Karnataka).

Analytical Approach

Acuite 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. It has a track record of over nine years of operation and is engaged in the two-wheeler dealership for HMSIPL. The proprietor of the firm Mr. Prasadraj Kanchan has more than a decade of experience in the dealership business. He is well supported by his wife 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 HMSIPL.

Improved financial risk profile

KU's financial risk profile has improved marked by improvement in KU's net worth, gearing and coverage indicators. The net worth of the firm improved to Rs.7 Cr as on 31 March, 2022 (Provisional) as against Rs.4 Cr as on 31 March, 2021. The gearing (debt-equity) has improved and stood lower at 0.90 times as on 31 March, 2022 (Provisional) as against 2.89 times as on 31 March, 2021. The gearing of the firm is expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.6 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.2 Cr and short term working capital limit of Rs.4 Cr.

The interest coverage ratio and DSCR both stood high at same level of 4.22 times for FY2022 (Provisional) as against 3.22 times for FY2021. The Net Cash Accruals to Total debt stood at 0.36 times for FY2022 (Provisional) as against 0.20 times for FY2021. The Total outside liabilities to Tangible net worth has improved and stood lower at 1.39 times for FY2022 (Provisional) as against 3.81 times for FY2021.

Acuité believes that the financial risk profile of the KU will remain comfortable over the medium term on account of low debt levels vis-à-vis modest tangible net worth and comfortable debt protection metrics.

Efficient working capital management

The working capital operations of KU are efficient marked by its improved Gross Current Assets (GCA) of 46 days for FY2022 (Provisional) as against 52 days for FY2021. This is primarily on account of its improved inventory cycle which stood at 25 days in FY2022 (Provisional) as against 29 days in FY2021. On the other hand, debtors cycle stood at almost same level of 22 days in FY2022 (Provisional) as against 21 days in FY2021. Further, creditors cycle also got improved and stood at 10 days in FY2022 (Provisional) as against 13 days in FY2021.

Acuité believes that the ability of KU to maintain its working capital cycle efficiently over the medium term will remain a key rating sensitivity factor.

Weaknesses

Decline in revenue albeit increase in profitability margins

KU reported decline in its revenues of Rs.64 Cr for FY2022 (Provisional) as against Rs.68 Cr in FY2021. This is primarily on account of less number of vehicles sold by the firm during the year especially in Q1 FY2022 due to the effect of second wave of covid induced lockdown restrictions and subdued performance in the overall automobile industry. The firm had sold 7959 units in FY2022 as against 9455 units in FY2021 and therefore generated lower sales of vehicles of Rs.49 Cr for FY2022 (Provisional) as against Rs.53 Cr in FY2021 from this segment.

However, the operating margin of the firm got improved and stood at 4.72 percent for FY2022 (Provisional) as against 4.54 percent for FY2021 mainly on account of dealing with less number of vehicles during the year from HMSIPL considering the lower demand received from the customers during Q1 FY2022. Further, the firm achieved an improvement in its net profit margin of 2.84 percent for FY2022 (Provisional) as against 2.57 percent for FY2021 on account of decline in the interest cost.

Acuité believes that the ability of KU to achieve significant improvement in its revenue while maintaining its profitability margin in near to medium term will remain a key rating sensitivity factor.

Limited bargaining power with the suppliers and exposure to intense competition

KU faces competition from other dealers of HMSIPL and established players in this segment such as Hero Motorcorp, Bajaj, Yamaha and Suzuki, amongst 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.

Rating Sensitivities

- Ability to achieve significant improvement in its revenue while maintaining profitability margin
- Ability to maintain working capital cycle

Material covenants

None

Liquidity position - Adequate

KU has adequate liquidity marked by moderate net cash accruals (NCA) against its maturing debt obligations. The firm generated cash accruals in the range of Rs.1 Cr to Rs.2 Cr during FY2020 to FY2022 (Provisional) against its repayment obligation of upto Rs.1 Cr during the same period. Going forward the NCA are expected ~Rs.2 Cr for period FY2023-FY2024 against repayment obligation of ~Rs.1 Cr during the same period. The working capital operations of the firm are efficient marked by its improved gross current asset (GCA) days of 46 days for FY2022 (Provisional) as against 52 days for FY2021. The average bank limit utilization for 6 months' period ended Mar 2022 therefore stood lower at ~45 percent. Current ratio stands at 1.15 times as on 31 March 2022 (Provisional). The firm has maintained cash & bank balance of Rs.0.63 crore in FY2022 (Provisional).

Acuité believes that the liquidity of KU is likely to remain adequate over the medium term on account of moderate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that KU 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.

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 64.13 | 67.63 |
| PAT | Rs. Cr. | 1.82 | 1.74 |
| PAT Margin | (%) | 2.84 | 2.57 |
| Total Debt/Tangible Net Worth | Times | 0.90 | 2.89 |
| PBDIT/Interest | Times | 4.22 | 3.22 |

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

Not applicable

Any other information

None

Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|----------------------------------|
| 04 Mar 2021 | Term Loan | Long Term | 0.52 | ACUITE BB- Stable (Reaffirmed) |
| | Inventory Funding | Long Term | 0.25 | ACUITE BB- Stable (Reaffirmed) |
| | Working Capital Term Loan | Long Term | 0.48 | ACUITE BB- Stable (Reaffirmed) |
| | Working Capital Term Loan | Long Term | 1.00 | ACUITE BB- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 3.00 | ACUITE BB- Stable (Reaffirmed) |
| | Inventory Funding | Long Term | 4.75 | ACUITE BB- Stable (Reaffirmed) |
| 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 (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|----------------------------------|------------------|----------------|----------------|-------------------|---|
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Axis Bank | Not Applicable | Inventory Funding | Not Applicable | Not Applicable | Not Applicable | 0.25 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Axis Bank | Not Applicable | Inventory Funding | Not Applicable | Not Applicable | Not Applicable | 4.75 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.17 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Axis Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 0.21 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Axis Bank | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | 0.40 | ACUITE BB Stable Upgraded (from ACUITE BB-) |
| Axis Bank | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | 1.22 | ACUITE BB Stable Upgraded (from ACUITE BB-) |

Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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