



## Press Release

Kanchana Udyog

October 16, 2023

### Rating Reaffirmed and Issuer not co-operating

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB   Reaffirmed   Issuer not co-operating*	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.10 Cr bank facilities of Kanchana Udyog (KU). The rating is being flagged as "**Issuer Not Cooperating**" in line with existing SEBI regulations and policy in respect of 'What Constitutes Non-Cooperation' of Acuite.

### Rationale for rating reaffirmation

The rating reaffirmation of KU considers increase in the firm's revenue in FY2023 (Provisional) and efficient working capital operations. It also draws comfort from the firm's experienced management with an established track record of operations and moderate financial risk profile. The rating is however constrained by the decline in the firm's operating and profitability margins.

### 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

#### Experienced management and established track record of operations

KU was established in the year 2013. It has an established track record of ten 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 proprietors 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 management and established track record of operations has helped the firm to develop healthy relationship with its customers.

The revenue of the company stood at Rs.77 Cr for FY2023 (Provisional) as against Rs.64 Cr for

FY2022. The firm sold 9554 units of two wheelers in FY2023 as against 7959 units in FY2022, of which ~80 percent of the revenue is generated through the sale of scooters and remaining ~20 percent through the sale of motorcycles.

The operating margin of the firm stood at 3.29 percent for FY2023 (Provisional) as against 4.21 percent for FY2022 on account of increase in cost of traded vehicles along with an increase in the employee cost and other operating expenses incurred during the year. For the current year FY2024, as on Q1 FY2024, KU has achieved revenue of Rs.16 Cr which stood at similar levels of Q1 FY2023.

Acuité believes that the firm will continue to benefit from its experienced management and long track of association with HMSIPL.

### **Moderate financial risk profile**

Financial risk profile of KU is moderate marked by modest network, low gearing and comfortable debt protection metrics. The tangible network of the firm stood at Rs.7 Cr as on 31 March, 2023 (Provisional) as against Rs.8 Cr as on 31 March, 2022. The decline in firm's tangible network is mainly on account of drawing of funds by the proprietor and for the payment of taxes during the year. Despite of decline in the firm's tangible network, the gearing (debt-equity) however stood improved at 0.85 times as on 31 March, 2023 (Provisional) as against 1.00 times as on 31 March, 2022 due to its reduced debt profile during the year. The gearing of the firm is expected to improve further over the medium term in the absence of any debt-funded capex plan. The total debt of Rs.6 Cr as on 31 March, 2023 (Provisional) consists of long term bank borrowings of Rs.1 Cr and short term bank borrowings of Rs.5 Cr.

The interest coverage ratio and DSCR though moderated it however remained comfortable at 3.64 times and 1.67 times for FY2023 (Provisional) as against 3.91 times and 1.89 times for FY2022. The Net Cash Accruals to Total debt stood at 0.30 times for FY2023 (Provisional) as against 0.25 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 1.24 times for FY2023 (Provisional) as against 1.50 times for FY2022. The Debt-EBITDA ratio stood improved at 2.46 times for FY2023 (Provisional) as against 2.92 times for FY2022.

### **Efficient working capital operations**

The working capital operations of KU are efficient marked by its improved Gross Current Assets (GCA) of 42 days for FY2023 (Provisional) as against 71 days for FY2022. This is on account of its improved inventory and receivables cycle which stood at 15 days and 16 days for FY2023 (Provisional) as against 23 days and 22 days for FY2022. The creditors cycle of the firm stood at 8 days for FY2023 (Provisional) as against 16 days for FY2022. The average bank limit utilization for 6 months' period ended June 2023 however stood at ~82 percent considering the firm's requirement of maintaining adequate stock of various models of Honda scooters and bikes to meet the customers demand and to avoid any supply constraints.

### **Weaknesses**

#### **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.

### **Rating Sensitivities**

- Ability to maintain an efficient working capital cycle
- Ability to maintain scale of operations while improving the profitability margins

### **All Covenants**

Not applicable

### **Liquidity Position - Adequate**

KU has adequate liquidity position marked by sufficient net cash accruals (NCA) to its

maturing debt obligations. The firm generated cash accruals of ~Rs.2 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation of ~Rs.1 Cr during the same period. Going forward, the NCA are expected in the range of Rs.2 Cr to Rs.3 Cr for the period FY2024-FY2025 against no debt repayment obligation during the same period. The working capital operations of the firm are efficient marked by its gross current asset (GCA) days of 42 days for FY2023 (Provisional). The average bank limit utilization for 6 months' period ended June 2023 however stood at ~82 percent. Current ratio stands at 1.08 times as on 31 March 2023 (Provisional). The firm has maintained cash & bank balance of Rs.2 Cr in FY2023 (Provisional).

**Outlook**

Not applicable

**Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	77.20	64.26
PAT	Rs. Cr.	1.84	1.68
PAT Margin	(%)	2.39	2.62
Total Debt/Tangible Net Worth	Times	0.85	1.00
PBDIT/Interest	Times	3.64	3.91

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul 2022	Cash Credit	Long Term	3.00	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Term Loan	Long Term	0.21	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Working Capital Term Loan	Long Term	1.22	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Inventory Funding	Long Term	4.75	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Working Capital Term Loan	Long Term	0.40	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Proposed Bank Facility	Long Term	0.17	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Inventory Funding	Long Term	0.25	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB   Reaffirmed   Issuer not co-operating*
Axis Bank	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE BB   Reaffirmed   Issuer not co-operating*
Axis Bank	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	4.75	ACUITE BB   Reaffirmed   Issuer not co-operating*
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.47	ACUITE BB   Reaffirmed   Issuer not co-operating*
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.12	ACUITE BB   Reaffirmed   Issuer not co-operating*
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.41	ACUITE BB   Reaffirmed   Issuer not co-operating*

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### About Acuité Ratings & Research

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