

Press Release

Mathan Caar Decors

November 06, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.20.00 crore bank facilities of MATHAN CAAR DECORS (MCD). The outlook is '**Stable**'.

Based out of Karur, Tamil Nadu, Mathan Caar Decors (MCD), is a proprietorship concern established in the year 1996 as "Mathan Services". The firm initially started with 3D alignment, car accessories and other automobile services and gradually started used car sale, car accessories, body shop services, 3D alignment, among others. The entity was founded by Mr. M. Mathan Kumar's father and currently managed by Mrs. Sangeetha and Mr. Mathan Kumar.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of MCD to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters and established presence in the market**

Mr. M. Mathan Kumar's father started this entity in the year 1996 and has experience over 3 decades in the business and subsequently managed by Mr. M. Mathan Kumar and his wife Mrs. Sangeetha Mathan. The extensive experience and prudence of doing business of the promoter has helped him maintain liaisons with individual customers and corporates like Tamil Nadu Newsprint and Papers Limited, Karur Vysya Bank, Lakshmi Vilas Bank, Chettinad Cement, among others who are regular customers to MCD. With Mr. Mathan's acquaintance with Mahindra Group's team, he successfully started a franchise outlet for used cars in FY2018 which has resulted in improvement of the revenues to Rs.8.34 crore in FY2019 against Rs.1.39 crore in FY2018. Acuité believes that the business profile will continue to be supported by established presence of MCD in the market coupled with the extensive experience of the management.

Weaknesses

- **Average financial risk profile**

Financial risk profile of the entity is average marked by below average gearing (Debt-Equity), below average total outside liabilities to total net worth (TOL/TNW) though partly comfortable debt protection metrics. Gearing stood average though improved significantly at 3.04 times as at March 31, 2019 as against 8.38 times as at March 31, 2018; improvement in gearing is due to infusion of quasi capital of Rs.2.10 crore in FY2019. Similarly, TOL/TNW also stood below average yet improved at 3.39 times as at March 31, 2019 as against 8.75 times as at March 31, 2018. Net worth is modest at Rs.4.35 crore as on March 31, 2019 as against Rs.0.57 crore as on March 31, 2018; supported by the infusion of quasi capital subordinated by the bank. MCD's debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 4.58 times and 0.18 times in FY2019 as against 2.17 times and 0.07 times in FY2018 respectively. The net cash accruals are about Rs.2.39 crore in FY2019. Further, the net cash accruals are expected at about Rs.2.5-4.5 crore, against the repayment obligations of about Rs.1.09 crore over the medium term. Acuité believes that with moderate accruals, the financial risk profile is expected to improve and remain moderate over the medium term.

- **Working capital intensive operations**

Operations of the firm are working capital intensive marked by moderate gross current asset (GCA) of 377 days for FY 2019 as compared 937 days for FY 2018. This is mainly on account of moderately high inventory

cycle which stood at 269 days in FY2019 as against 1299 days in FY2018 due to year end purchase of used vehicles as well as used cars kept in stock. However, the bank lines are utilized comfortably at about 43% through September 2019 leaving aside enough funds for incremental working capital requirements. Acuite believes that with the business cycle and high inventory period, the gross current asset (GCA) days are expected remain high though supported by adequate bank and internally generated funds available for incremental working capital requirement over the medium term.

Key Rating Sensitivity Factor

- Improvement in revenue profile with healthy profitability margins
- Adequate liquidity marked by low bank line utilization and sufficient net cash accruals to repayment obligations

Material Covenants

Unsecured loans to the tune of Rs.2.10 crore, has to be maintained in the entity to support the net worth.

Liquidity: Adequate

Liquidity of the MCD is adequate marked by adequate net cash accruals to repayment obligations and comfortable bank limit utilization. The cash accruals were recorded at Rs.2.39 crore in FY2019 against repayment obligation of Rs.1.09 crore leaving sufficient cushion for liquidity. Cash accruals are further expected at about Rs.3.90-5.45 crore, against the repayment obligations of about Rs.1.09 crore over the medium term. Utilisation of its bank lines at about 43 per cent over six months through September 2019 which reflects the additional bank funds to support the incremental working capital requirement. The firm has an unencumbered cash and bank balance of Rs.0.09 crore as on 31 March, 2019. The current ratio is stood healthy at 1.53 times in FY2019. Acuite believes that MCD's liquidity is expected to remain adequate over the medium term in the absence of significant debt funded capital expenditure and adequate internal and bank funds to run the operations.

Outlook: Stable

Acuite believes that MCD will maintain a 'Stable' outlook over the medium term owing to its experienced management and its established association with Mahindra First Choice. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of stretch in working capital cycle leading to deterioration of financial risk profile and liquidity position.

About the Rated Entity – Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8.34	1.39	0.57
EBITDA	Rs. Cr.	3.05	0.57	0.32
PAT	Rs. Cr.	1.45	0.09	0.07
EBITDA Margin	(%)	36.61	41.30	37.19
PAT Margin	(%)	17.36	6.83	7.98
ROCE	(%)	18.49	7.58	10.90
Total Debt/Tangible Net Worth	Times	3.04	8.38	7.78
PBDIT/Interest	Times	4.58	2.17	2.07
Total Debt/PBDIT	Times	4.33	8.29	11.34
Gross Current Assets (Days)	Days	377	937	1184

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

None

Any other information

None

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>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.htm>
- Service Entities – <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History

Not Applicable

***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	10.00	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.76	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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