

Press Release

Kanchana Automobiles Private Limited

September 30, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.36.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.36.00 crore bank facilities of Kanchana Automobiles Private Limited (KAPL). The outlook is '**Stable**'.

Kanchana Automobiles Private Limited (KAPL) was incorporated in 2006 and is the authorized dealers for Hyundai Motor India Limited (HMIL) for the Southern India region. It has a wide network of sales and service outlets at Udupi, Mangalore, Karwar, Puttur, Sirsi, Kundapura, Kumta and Surathkal.

Analytical Approach

Acuité has considered the standalone view of the financial and business risk profile KAPL to arrive at this rating.

Key Rating Drivers

Strengths

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

KAPL was incorporated in 2006 by Mr. Prasadraj Kanchan and Mrs. Sukanya Kanchan who possess more than 2 decades in the automobile dealership business. The promoters also have dealerships for TVS Motors Company Limited, Ashok Leyland Limited and Honda Scooters & Motor Cycles 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.

Weaknesses

- **Average financial risk profile**

KAPL has average financial risk profile marked by the average net-worth, high gearing and average debt protection metrics. The net worth of the company stood at Rs.8.13 crore as on March 31, 2020 (Provisional) as against Rs.7.28 crore as on March 31, 2019. The gearing levels (debt-equity) stood high at 4.88 times as on March 31, 2020 (Provisional) as against 5.56 times as on March 31, 2019 and TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 5.54 times as on March 31, 2020 (Provisional) as against 6.34 times as on March 31, 2019. The total debt of Rs.39.67 crore as on March 31, 2020 (Provisional) comprises of long term debt of Rs.6.18 crore, unsecured loans from the promoters of Rs.3.43 crore and working capital limits of Rs.30.06 crore.

The coverage indicators stood average marked by interest coverage ratio (ICR) of 1.47 times in FY2020 (Provisional) as against 1.43 times in FY2019. The NCA/TD (Net Cash Accruals to Total Debt) stood stagnant at paltry 0.04 times during FY2018-FY2020 (Provisional) period.

Acuité believes that financial risk profile of the company is expected to remain average in the near term on account of modest net worth, high gearing and significant working capital requirements.

- **Working capital intensive operations**

The operations of KAPL are working capital intensive marked by near 100 percent utilization of multiple working capital limits for the 12 months ended in August, 2020. The company has Gross Current Assets (GCA) days of 65 days as on March 31, 2020 (Provisional) as compared to 63 days as on March 31, 2019. The GCA days are mainly dominated by high Inventory days. The Inventory days and Debtor days both have stood constant at 51 days and 10 days as on March 31, 2020 (Provisional) and as on March 31, 2019, respectively.

- **Stiff competition from other dealers and brands**

HMIL's focus on expanding its dealership network is expected to increase competition among its own dealers. Furthermore, the company is also exposed to intense competition from other automobile companies such as Honda, Tata Motors, Maruti, Toyota, to name a few. Besides, the launch of new models at competitive prices eats into the market share of Hyundai, which in turn, affects dealers including KAPL.

Liquidity position: Stretched

KAPL has stretched liquidity position marked by near 100 percent utilization of multiple fund-based working capital facilities over the 6 month period ended August, 2020. Its net cash accruals stood at Rs.1.67 crore as on March 31, 2020 (Provisional) as against Rs.1.72 crore as on March 31, 2019 while its maturing debt obligations stood at Rs.2.20 crore as on March 31, 2020 (Provisional) and Rs.2.24 crore as on March 31, 2019. The current ratio stood at 0.90 times as on March 31, 2020 (Provisional) as against 0.86 times as on March 31, 2019. The company had cash and bank balance of Rs.1.47 crore as on March 31, 2020 (Provisional).

Acuité believes that the liquidity of the firm is expected to improve over the medium term on account of moderate cash accrual and fund infusion from promoters.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

Outlook: Stable

Acuité believes that KAPL will maintain a stable outlook in the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	184.02	182.24
PAT	Rs. Cr.	0.85	0.90
PAT Margin	(%)	0.46	0.50
Total Debt/Tangible Net Worth	Times	4.88	5.56
PBDIT/Interest	Times	1.47	1.43

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

CARE vide its press release dated May 06, 2020 has classified the rating of Kanchana Automobiles Private Limited to 'CARE BB-/Stable Issuer not cooperating' based on the best-available information.

Any other information

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>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	9.50%	Not Applicable	18.00	ACUITE BB- / Stable (Assigned)
Secured Overdraft	Not Applicable	11.75%	Not Applicable	16.00	ACUITE BB- / Stable (Assigned)
Term Loan	March, 2019	12.00%	April, 2025	1.00	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Assigned)

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About Acuité Ratings & Research:

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