Press Release

Kanchana Automobiles Private Limited

December 29, 2021

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00	ACUITE BB | Stable | Upgraded	
Total	36.00	-	-

Rating Rationale

Acuité 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.36.00 crore bank facilities of Kanchana Automobiles Private Limited (KAPL). The outlook is 'Stable'.

Rationale for Rating Upgrade

The upgrade in the rating takes into account the improvement in the operating performance of the company in FY21 and 8MFY22 despite the restrictions laid by COVID-19, improvement in the working capital management, and improvement in the overall financial risk profile in FY21. The rating upgrade also factors in the significant improvement in the demand-side market sentiments in the automobiles industry, albeit prevailing supply-side constraints led by chips shortage. The rating is, however, constrained by below-average financial risk profile of KAPL, and any further deterioration in the same will remain a key monitorable.

About the Company

Kanchana Automobiles Private Limited (KAPL) was incorporated in 2005 and is an authorized dealer for Hyundai Motor India Limited (HMIL) for the coastal Karnataka region. It has a dealership network of 9 sales & services outlets at Udupi, Mangalore, Karwar, Puttur, Sirsi, Kundapura, Kumta and Surathkal for Hyundai passenger cars.

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 of experience in the automobile dealership business. The promoters also have dealerships for TVS Motor Company Limited, Ashok Leyland Limited and Honda Scooters & Motor Cycles Limited under various private limited/partnership concerns. Acuité believes that the company will continue to benefit from its experienced management and established relations with its principal.

Improvement in the operating performance

The scale of operations of KAPL improved marked by an increase in the operating income by 24.22% y-o-y to Rs.223.60 crore in FY21 despite the COVID-19 pandemic, owing to pre-COVID bookings getting executed after the first wave of COVID-19, which was primarily met by way

of stocks as on March 31, 2020, owing to the supply constraints from the principal manufacturers during that period. The aforementioned increase in the operating income can be attributable to the increase in the realizations per vehicle owing to increased focus on SUV cars in the sales mix in that year. Further, the net sales of the company increased fromRs.123.01 crore and Rs.126.84 crore in 8MFY20 and 8MFY21 respectively to Rs.146.06 crore in 8MFY22 owing to a significant increase in the demand on the back of a significant improvement in the market sentiments of the automobile industry in the country.
The operating margin and net margin of KAPL stood moderately low at 3.71% and 1.07% respectively in FY21 as against 3.37% and 0.28% respectively in FY20, however improved marginally in FY21 over FY20 owing to a proportionate decrease in various fixed & variable overhead costs on the back of an increase in the scale of operations in that year. Given the increase in the scale of operations and improvement in profit margins, the net profit also increased from Rs.0.50 crore in FY20 to Rs.2.38 crore in FY21, reflecting the improvement in the overall operating performance of the company in that year.

Improvement in working capital cycle

The operations of KAPL are moderately working capital intensive in nature marked by GCA of 58 days in FY21 as against 64 days in FY20, since the majority of funds are blocked in inventory. The inventory holding improved from 52 days in FY20 to 23 days in FY21 owing to lower purchases during the year and higher consumption of stock as on March 31, 2020, on the back of COVID-19 pandemic restrictions. As a result of this, the working capital cycle also improved significantly from 53 days in FY20 to 13 days in FY21. Given the moderate working capital intensity, the average cash credit utilization in the last 6 months ended November 2021 stood moderate at 68.89%. However, this improvement in working capital cycle is not expected to continue in the longer term, since the demand and supply dynamics affected by COVID 19 restrictions will gradually be normalized. However, the working capital cycle is still expected to remain comfortable with the funds primarily remaining blocked in inventory.

Weaknesses

Below-average financial risk profile

KAPL's financial risk profile remained below average for period under study marked by high gearing and low coverage indicators. The capital structure of KAPL stood leveraged with an overall gearing of 3.17 times as on March 31, 2021 as against 5.10 times as on March 31, 2020, however the same improved significantly in FY21 over FY20 owing to decrease in the working capital bank borrowings and accretion in reserves.
Given the improvement in the capital structure and profitability position, the debt coverage indicators also improved with the interest coverage and DSCR having improved from 1.39 times and 0.89 times respectively in FY20 to 2.09 times and 1.14 times respectively in FY21. However, the same continue to remain low due to low profitability.
Acuité expects any further deterioration in KAPL's financial risk profile to remain a key rating monitorable.

Stiff competition from other dealers and brands

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

ESG Factors Relevant for Rating

Not Applicable

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

Liquidity Position: Adequate

The operations of KAPL are moderately working capital intensive in nature with GCA daysand working capital cycle of 58 days and 13 days respectively in FY21 as against 64 days and 53 days respectively in FY20. Given this, the average cash credit utilization in the last 6 monthsended November 2021 stood moderate at 68.89%. Moreover, the company generated moderate net cash accruals worth Rs.3.28 crore in FY21 as against moderate debt repayment obligations worth Rs.2.42 crore in that year. On the other hand, the company is expected to generate net cash accruals in the range of Rs.4-4.25 crore over FY22-FY23, as against the repayment obligations in the range of Rs.3.50-3.75 crore over the same period. However, the current ratio stood low at 1.08 times as on March 31, 2021 as against 0.88 times as on March 31, 2020. The liquidity profile of the company is expected to remain stretched on account of low buffer between net cash accruals and repayment obligations mitigated to some extent by high unutilized bank limits.

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 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 revenues and profitability or if the financial risk profile deteriorates due to higher-than-expected working capital requirements.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	223.60	180.01
PAT	Rs. Cr.	2.38	0.50
PAT Margin	(%)	1.07	0.28
Total Debt/Tangible Net Worth	Times	3.17	5.10
PBDIT/Interest	Times	2.09	1.39

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

ISSUER NOT COOPERATING by CRISIL as per press release dated July 21, 2021.
ISSUER NOT COOPERATING by CARE as per press release dated July 7, 2021.

Any other information

Not Applicable

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

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

Rating History

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Sep 2020	Proposed Bank Facility	Long Term	1.00	ACUITE BB- | Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB- | Stable (Assigned)
	Secured Overdraft	Long Term	16.00	ACUITE BB- | Stable (Assigned)
	Cash Credit	Long Term	18.00	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
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB | Stable | Upgraded (from ACUITE BB-)
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB | Stable | Upgraded (from ACUITE BB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB | Stable | Upgraded (from ACUITE BB-)
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.00	ACUITE BB | Stable | Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.