

Press Release

Kanchana Automobiles Private Limited

February 07, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	36.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for Rating Reaffirmation:

The rating is reaffirmed basis the experienced management, established track record of operations and long association with Hyundai Motor India Limited (HMIL), marked by stable operating income, range bound profitability levels and efficient working capital management. However, the rating is constrained due to its below-average financial risk profile and stiff competition from other dealers and brands.

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 Udipi, Mangalore, Karwar, Puttur, Sirsi, Kundapura, Kumta and Surathkal for Hyundai passenger cars.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management, established track record of operations and long association with Hyundai Motor India Limited

KAPL was incorporated in 2006 by Mr. Prasadraj Kanchan and Mrs. Sukanya Kanchan who possess more than two 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 their various other private limited/partnership concerns.

KAPL has been an authorised dealer of Hyundai Motor India Limited (HMIL) for more than 15

years. The company benefits from its long association with HMIL. KAPL's operating income grew to Rs.231.51 Cr. in FY22 as against Rs.223.60 Cr. in FY21 and Rs.180.01 Cr in FY20, driven by higher realisations. The operating profitability stood at 3.53 percent in FY22 as against 3.71 percent in FY21.

Acuité believes that the company will continue to benefit from its experienced management and established relations with its principal.

Efficient working capital management

KAPL's working capital operations are moderate with comfortable GCA days of 47 in FY22. Inventory period improved and stood moderate at 18 days in FY22 as against 23 days in FY21. Debtor realization period stood at 25 days in FY22 and FY21. Creditor days stood at 13 in FY22 as against 14 in FY21. Average bank limit utilization stood at 82.42% for the six months ended October 2022.

Weaknesses

Below-average financial risk profile

KAPL's financial risk profile remained below average marked by moderately high gearing and modest debt protection metrics. The net worth of the firm remained at Rs.14.58 Cr and Rs.11.17 Cr as on March 31, 2022 and March 31, 2021 respectively. The gearing ratio though improving, has been moderately high as it stood at 2.07 times as on March 31, 2022 against 3.17 times in the March 31, 2021. 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 2.74 times and 1.09 times respectively in FY22 to 2.09 times and 1.14 times respectively in FY21.

Stiff competition from other dealers and brands

Hyundai Motor India Limited (HMIL) 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.

Rating Sensitivities

- Improvement in scale of operations while maintain its profitability margins and capital structure
- Deterioration in the working capital cycle leading to stress on the liquidity position

Material covenants

None

Liquidity: Adequate

KAPL has adequate liquidity position. In FY22 company generated net cash accrual of Rs.4.33 Cr against maturing debt obligation of Rs.3.33 Cr. Going forward company is expected to generate net cash accruals (NCA) of Rs.5.19 Cr and Rs.6.07 Cr in FY23 and FY24 respectively against maturing debt obligation of Rs.2.85 Cr and Rs.2.56 Cr in FY23 and FY24 respectively. In FY22 company had unencumbered cash and bank position of Rs.2.58 Cr. Average bank limit utilization stood at 82.42% for the six months ended October 2022.

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 its capital structure. 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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	231.51	223.60
PAT	Rs. Cr.	3.40	2.38
PAT Margin	(%)	1.47	1.07
Total Debt/Tangible Net Worth	Times	2.07	3.17
PBDIT/Interest	Times	2.74	2.09

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

ISSUER NOT COOPERATING by CRISIL as per press release dated September 14, 2022.

ISSUER NOT COOPERATING by CARE as per press release dated September 21, 2022.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Dec 2021	Term Loan	Long Term	1.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	11.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Secured Overdraft	Long Term	16.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	8.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.24	ACUITE BB Stable Reaffirmed
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE BB Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.76	ACUITE BB Stable Reaffirmed

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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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