

Press Release

Prerana Motors Private Limited

February 07, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	43.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	118.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of 'ACUITE BBB-' (read as ACUITE Triple B minus) and the short-term rating of 'ACUITE A3' (read as A three) on the Rs.118.00 Cr bank facilities of Prerana Motors Private Limited (PMPL). The outlook is 'Stable'.

Rationale for Ratings Assigned

The rating assigned factors in the established track record of operations of the company driven by experienced management, established relationship with Tata Motors Limited (TML) and operations diversified across Bangalore, Mysore and Mandya with 51 outlets/showrooms/workshops. The ratings also takes into account the efficiently managed working capital cycle. The ratings however, are constrained by subdued operating performance and low profit margins for last 3 years and presence in a competitive industry. Going forward, increase in the scale of operations without further deterioration in profitability will remain a key rating sensitivity factor.

About the Company

PMPL was initially established as a partnership firm in 1991, and was later converted into a private limited company in 1999. The company is an authorized dealer for the entire range of vehicles of TML, comprising small commercial vehicles (SCVs), light commercial vehicles (LCVs), medium & heavy commercial vehicles (M&HCVs), and passenger vehicles (PVs). Moreover, it also provides allied services and spare parts related to the aforementioned vehicles. The company operates various outlets, showrooms and workshops in Bangalore, Mandya and Mysore, whereas the overall operations are currently looked after by Mr. Premanand Shenoy and Mr. Navin Shenoy. The company's registered & corporate office is located at Lalbagh Road in Bangalore.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations driven by experienced management

PMPL possesses an established track record of more than 3 decades of operations in the automobile dealership business. The company was initially established as a partnership firm in 1991, and was later converted into a private limited company in 1999. The overall operations of the company are currently looked after by the Mr. Premanand Shenoy (Managing Director) along with his brother – Mr. Navin Shenoy (Director), who possess a total experience of over 35 years and 28 years respectively in the automobile dealership business. The company benefits from its experienced management in the form of established relationship with its customers, suppliers, channel finance partners, and other stakeholders.

Acuité believes that PMPL shall continue to benefit from the experienced management who shall enable growth impetus to the company in the medium-term.

Long-term sourcing arrangements with Tata Motors and diversified operations

Ever since its inception, PMPL has been an authorized dealer of TML across its segments viz. SCVs, LCVs, M&HCVs, and PVs. CVs comprise 60-65% of the annual revenues of the company, whereas the balance comprises PVs. Given this, the company has been able to reap the benefits of TML being the market leader in the CV segment and being one of the topmost players with increasing market share in the PV segment, thereby leading to a sustained business flow for the company over the years of its operations. Moreover, the operations of the company are diversified across 51 units comprising outlets/showrooms/yards/workshops, spread across various locations in Bangalore, Mandya and Mysore.

Acuité believes that PMPL shall continue to benefit from its long-standing relationship with TML whose established market presence shall help the company to benefit in the medium-term.

Moderate financial risk profile

The financial risk profile of PMPL stood moderate marked by modest tangible net-worth base, moderate capital structure and moderate debt coverage indicators. The tangible net-worth base stood modest at Rs.46.78 Cr as on March 31, 2021 as against Rs.40.61 Cr as on March 31, 2020. The capital structure stood moderate with an overall gearing of 1.89 times as on March 31, 2021 as against 1.43 times as on March 31, 2020, given the relatively higher reliance on external debt to fund the working capital requirements. Moreover, the overall gearing deteriorated in FY21 over FY19 owing to increase in the working capital bank borrowings to fund the increase in the inventory at the end of FY21. The moderate capital structure is also reflected by high TOL/TNW of 3.06 times as on March 31, 2021 as against 2.32 times as on March 31, 2020.

Given the moderate capital structure, coupled with moderate profitability, the debt coverage indicators also stood moderate with the interest coverage and DSCR of 2.61 times and 2.00 times respectively in FY21 as against 1.37 times and 1.08 times respectively in FY20, whereas the same improved in FY21 over FY20 owing to improved profitability.

Acuité believes that any significant deterioration in the capital structure of PMPL led by unenvisioned increase in the working capital debt shall be a key rating sensitivity.

Weaknesses

Subdued operating performance over last 3 years albeit improvement in 9MFY22

The scale of operations of PMPL has been continuously declining over FY19-FY21 with the operating income having declined from Rs.951.14 Cr in FY19 to Rs.812.67 Cr and Rs.561.85 Cr in FY20 and FY21 respectively. This was owing to various headwinds faced by the CV market, including change in axle load norms, slowdown in economy, liquidity crunch, price hike led by implementation of BSVI emission norms, etc., most of which also affected the PV market. Moreover, the COVID-19 pandemic in FY21 fuelled the already prevailing issues in the market. However, given the improvement in the market sentiments, the company achieved an

operating income worth Rs.587.80 crore in 9MFY22, thereby surpassing the whole-year operating income worth Rs.561.85 Cr in FY21.

The operating margin of PMPL stood low at 2.06 per cent in FY21 as against 1.53 percent and 1.91 per cent in FY20 and FY19 respectively, given the automobile dealership nature of operations. However, the same improved in FY21 over FY20 owing to decrease in various overhead costs on the back of the COVID-19 pandemic. The net margin also stood low at 1.07 per cent in FY21 as against 0.12 per cent and 0.34 per cent in FY20 and FY19 respectively. Further, during 9MFY22, the operating margin and net margin stood at 2.66 per cent and 1.54 per cent respectively.

Acuité believes that a sustainable growth in the scale of operations of PMPL shall be a key rating sensitivity.

Stiff competition from other dealers and brands

TML's focus on expanding its dealership network is expected to increase competition among its own dealers. Moreover, TML itself is also exposed to intense competition from other automobile players viz. Honda, Hyundai, Maruti, Toyota, etc. in the PV market, although it is a consistent market leader in the CV market. Besides, the launch of new models by other players at competitive prices eats into the market share of TML, which in turn, affects dealers including PMPL.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Improvement in the overall financial risk profile.
- Deterioration in the capital structure led by un-envisioned increase in the working capital debt.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of PMPL is adequate marked by moderate net cash accruals vis-à-vis debt repayment obligations, efficiently managed working capital, moderate unutilized working capital limits and moderate free cash & bank balance. The working capital of the company is efficiently managed with gross current assets days and working capital cycle of 91 days and 59 days respectively in FY21 as against 35 days and 25 days respectively in FY20. Given this, the average working capital utilization in the last 6 months ended December 2021 stood moderate at 58.87 per cent. Moreover, the company generated moderate net cash accruals worth Rs.4.12 Cr and Rs.8.81 Cr in FY20 and FY21 respectively as against moderate debt repayment obligations worth Rs.2.84 Cr and Rs.1.26 Cr in those respective years. The company is expected to generate net cash accruals in the range of Rs.9.5-12 Cr over FY22-FY23, as against minimal debt repayment obligations worth Rs.0.50-0.55 Cr over the same period. Furthermore, the free cash & bank balance stood moderate at Rs.9.49 Cr as on March 31, 2021 as against Rs.3.76 Cr as on March 31, 2020.

Outlook: Stable

Acuité believes that PMPL 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 along with an improvement in the overall financial risk profile, while maintaining the liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected revenues and profitability or if the overall financial risk profile and the overall liquidity position deteriorates due to higher-than-expected working capital requirements.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	561.85	812.67
PAT	Rs. Cr.	6.02	0.95
PAT Margin	(%)	1.07	0.12
Total Debt/Tangible Net Worth	Times	1.89	1.43
PBDIT/Interest	Times	2.61	1.37

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

Not Applicable

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 Assigned
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
Tata Motors Finance Solutions Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	14.25	ACUITE A3 Assigned
Indusind Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	18.75	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Assigned
Kotak Mahindra Bank	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE BBB- Stable Assigned

Federal Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.00	ACUITE BBB- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	3.00	ACUITE BBB- Stable Assigned

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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.

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