

## Press Release

Prerana Motors Private Limited

May 02, 2023



## Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	77.11	ACUITE BBB   Stable   Upgraded	-
Bank Loan Ratings	40.89	-	ACUITE A3+   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	118.00	-	-

## Rating Rationale

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

### Rationale for the rating

The rating upgrade factors in the established track record of operations of the company driven by experienced management, established relationship with Tata Motors Limited (TML) and, the operations of the company that are spread across 60 units comprising of outlets/showrooms/yards/workshops, in Bangalore and Mysore. The ratings also takes into account the efficiently managed working capital cycle and comfortable financial risk profile of the company. Acuite has taken into account the scope of growing automobile industry and the growth in the operating revenue of the company along with improvement in financial profile.

### 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

Acuite has considered the standalone financial and business risk profile of 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 60 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.

### Weaknesses

#### **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

- Healthy growth of revenues and profitability margins.
- Improvement in the overall financial risk profile.
- Deterioration in the capital structure led by un-envisaged 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 comfortable 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 101 days and 83 days respectively in FY22 as against 91 days and 59 days respectively in FY21. Given this, the average working capital utilization in the last 10 months ended January 2023 stood moderate at 66.60%. Moreover, the net cash accruals improved to Rs. 16.02 crore in FY 22 as against Rs. 8.81 crores in FY 21 as against comfortable debt repayment obligations worth Rs. 0.50 crore and Rs.1.26 crore in those respective years. Furthermore, the free cash &

bank balance stood moderate at Rs. 13.80 crore as against Rs. 9.49 crore as on March 31, 2021.

### 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	767.77	561.85
PAT	Rs. Cr.	13.55	6.02
PAT Margin	(%)	1.77	1.07
Total Debt/Tangible Net Worth	Times	0.30	1.89
PBDIT/Interest	Times	3.92	2.61

### 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>
- 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Channel Financing	Short Term	18.75	ACUITE A3 (Assigned)
	Working Capital Demand Loan	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Channel Financing	Short Term	14.25	ACUITE A3 (Assigned)

07 Feb 2022	Inventory Funding	Short Term	5.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	7.00	ACUITE BBB-   Stable (Assigned)
	Inventory Funding	Long Term	27.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	24.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Short Term	2.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB-   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
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A3+   Upgraded
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE BBB   Stable   Upgraded
Indusind Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A3+   Upgraded
Federal Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB   Stable   Upgraded
Tata Motors Finance Solutions Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	14.25	ACUITE A3+   Upgraded
Kotak Mahindra Bank	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	42.00	ACUITE BBB   Stable   Upgraded
HDFC Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+   Upgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.64	ACUITE A3+   Upgraded
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.11	ACUITE BBB   Stable   Upgraded
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	3.00	ACUITE BBB   Stable   Upgraded

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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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