

Press Release
Prerana Motors Private Limited
July 30, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	25.32	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	92.68	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	118.00	-	-

Rating Rationale

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

Rationale for the rating

The rating reaffirmation factors the sustained improvement in operating revenue and profitability margins in FY2024(prov) and FY2023. The company reported operating revenue of Rs.1345.44 Cr. in FY2024(prov) as against Rs.1175.00 Cr. in FY2023. The increase is reflected in the growth of the automobile sector in the last two years. Further rating factors include the established track record of operations of the company driven by experienced management, the established relationship with Tata Motors Limited (TML) and the operations of the company which are spread across 80 units comprising outlets, showrooms, yards and workshops across Karnataka. The ratings also take into account the adequate liquidity and comfortable financial risk profile of the company.

About the Company

Prerana Motors Private Limited (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.

Unsupported Rating

Not Applicable

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 three 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 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 relationships with its customers, suppliers, channel finance partners, and other stakeholders. Acuité believes that PMPL shall continue to benefit from the experienced management who will enable growth impetus for 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 top players with increasing market share in the PV segment, thereby leading to sustained business flow for the company over the years of its operations. Moreover, the operations of the company are diversified across 80 units comprising outlets, showrooms, yards and workshops spread across various locations in Bangalore, Mandya, Mysore, Chikkaballpur, Ramanagara and Kolar.

Owing to the long-standing relationship with TML and diversified operations, the operating income of the company stood at Rs.1345.44 Cr in FY2024(prov) as against Rs.1175 Cr in FY2023 and Rs.767.77 Cr in FY2022 with CAGR of 32.38 percent for the last two years ending FY2024(prov). The increase in revenue has been witnessed due to the increase in demand for both passenger and commercial vehicles in the recent timeline. Further, with the government's focus on infrastructure and construction industry development, the sale of medium and heavy commercial vehicles has increased in the last two years. Furthermore, PMPL also observed an increase in PV sales owing to the introduction of electric vehicles. The operating margins stood at 3.67 percent in FY2024(prov) and 3.77 percent in FY2023 as against 2.76 percent in FY2022. Further, the net profit stood at Rs.31.08 Cr with a profit margin of 2.31 percent in FY2024 (prov).

Acuité believes that PMPL will continue to benefit from its long-standing relationship with TML whose established market presence will help the company improve its scale of operations over the medium- term.

Healthy financial risk profile

The financial risk profile of PMPL is healthy marked by improving tangible net-worth, low gearing and comfortable debt coverage indicators. The tangible net-worth stood strong at Rs.120.84 Cr as on March 31, 2024(prov) as against Rs.89.76 Cr as on March 31, 2023. The total debt consists of long-term debt of Rs.0.21 Cr, USL of Rs.0.04 Cr, short term debt of Rs.80.74 Cr and CPLTD of Rs.0.65 Cr. Short term debt consists of CC limits and inventory funding. The gearing of the company improved and stood in the range of 0.50 -0.70 times for the last two years ending March 31, 2024 (prov). Further, the Debt/ EBITDA of the company is comfortable at 1.53 times as on March 31, 2024(prov).

The debt coverage indicators are comfortably supported by ICR and DSCR of 6.15 times and 4.58 times respectively as on March 31 2024 (prov) as against 6.48 times and 4.74 times as on March 31 2023. The NCA/ TD stood at 0.42 times in FY2024(prov).

ACUITE believes that the financial risk profile of the company continues to be healthy over the medium term owing to the nature of the industry and that no debt-funded CAPEX is planned.

Weaknesses

Stiff competition from other dealers and brands

TML' 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 working capital cycle leading to stress on the liquidity position.

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 and moderate unutilized working capital limits. The working capital of the company is efficiently managed with gross current assets days of 69 days in FY2024(prov) as against 70 days in FY2023. With the efficient working capital management, the bank limit utilisation of the company stood moderate at 51.39 percent for fund-based limits and 59.36 percent for non-fund-based limits for the last 6 months ending June 2024. Moreover, the net cash accruals improved to Rs.34.35 Cr. in FY2024(prov) as against Rs.31.35 Cr. in FY2023 as against comfortable debt repayment obligations worth Rs.0.71 Cr. and Rs.0.72 Cr. in those respective years. Furthermore, the free cash and bank balance stood moderate at Rs.5.78 Cr. as on March 31, 2024(prov).

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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	1345.44	1175.00
PAT	Rs. Cr.	31.08	29.33
PAT Margin	(%)	2.31	2.50
Total Debt/Tangible Net Worth	Times	0.68	0.55
PBDIT/Interest	Times	6.15	6.48

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.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
02 May 2023	Channel/Dealer/Vendor Financing	Short Term	12.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Inventory Funding	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee (BLR)	Short Term	2.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Channel/Dealer/Vendor Financing	Short Term	14.25	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Short Term Bank Facility	Short Term	6.64	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Inventory Funding	Long Term	42.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Channel/Dealer/Vendor Financing	Long Term	7.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	1.11	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan (WC DL)	Long Term	3.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
07 Feb 2022	Proposed Short Term Bank Facility	Short Term	2.50	ACUITE A3 (Assigned)
	Channel/Dealer/Vendor Financing	Short Term	14.25	ACUITE A3 (Assigned)
	Bank Guarantee (BLR)	Short Term	2.50	ACUITE A3 (Assigned)
	Channel/Dealer/Vendor Financing	Short Term	18.75	ACUITE A3 (Assigned)
	Inventory Funding	Short Term	5.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Inventory Funding	Long Term	27.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	24.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	7.00	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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.50	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.00	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.50	ACUITE A3+ Reaffirmed
Federal Bank	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A3+ Reaffirmed
South Indian Bank	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3+ Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Inventory Funding	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	42.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Inventory Funding	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.68	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	05 Aug 2023	Not avl. / Not appl.	04 Aug 2024	Simple	1.32	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Thejaswini P V Manager-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.