



Press Release
CARGO MOTORS KUTCH PRIVATE LIMITED
May 11, 2022
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.50	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	42.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) on the Rs.42.50 crore of bank facilities of **Cargo Motors Kutch Private Limited (CMKPL)**. The outlook is '**Stable**'.

The rating takes into account satisfactory business and financial performance during FY21, resulting in efficient working capital management and adequate liquidity. The rating also derives strength from the growing presence of MG Motors in Indian market. The ratings are however constrained by leveraged financial risk profile, thin profitability margins arising out of competition from various auto dealers in market and limited bargaining power. The company also witnesses geographical concentration across Punjab and Haryana region.

About the Company

Cargo Motors Kutch Pvt Ltd was established in the year 2005 by Mr. Pravesh Nanda at Ahmedabad, Gujarat. The company has been engaging in dealership business for MG Motors in Punjab and Haryana since June 2019. The company operates across 7 showrooms and 6 workshops.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of CMKPL to arrive at the rating

Key Rating Drivers

Strengths

Satisfactory financial performance during FY21

The company has been engaging in dealership business of MG Motors since June 2019. Hence, FY21 is first full year of commercial operations. Hence, CMKPL reported total operating income of Rs.307.06 crore during FY21 (Prov.). The company further reported operating profit of Rs.3.45 crore. Further, the company also reported net profit of Rs.0.69 crore during the year. The satisfactory financial performance in first full year of commencement is also due to experienced management team.

Efficient working capital management

The Gross Current Asset (GCA) days of CMKPL remained at 48 days during FY21. The inventory days of the company remained at lower level at 22 days. The inventory period is majorly w.r.t to arrival of the vehicle in showroom to its delivery to customer. The debtors period also remained at lower level at 22 days during FY21. As the company receives full payments before

delivery. The credit period is 10 days during FY21. The working capital utilisation for the past 6 months ending December 2021 remained at around 45%.

Weaknesses

Leveraged capital structure

The tangible net worth of the company remained at Rs.6.37 crore as on March 31, 2021 (Rs.5.68 crore as on March 31, 2020). The capital structure of the company as represented by debt-equity ratio remains at higher level at 4.03 times as on March 31, 2021 as against 2.67 times as on March 31, 2020. The moderation in D-E ratio is on account of increase in working capital borrowings during FY21. The company has been increasing its working capital limits (inventory funding) over the period to meet its requirement. This, further resulted in higher interest cost during FY21. The net cash accruals to total debt remained at 0.06 times during FY21 (0.09 times during 9MFY20). Hence, with higher in debt, the total outstanding liability to tangible net worth remained at 6.99 times during FY21 (4.09 times during 9MFY20). The Debt-EBITDA remained at 7.04 times during FY21 (6.20 times during 9MFY20).

Intense competition resulting in thin profitability margins

On profitability margin front, the EBITDA margin remained at 1.12%, whereas net profit margin remained at 0.22%. The margins of the product are set at particular level. Further, the company also faces competition from various other established automobile dealers. The business of the company is also concentrated to Punjab and Haryana region. Hence, the mentioned factors result in thin profitability margin.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Improvement in revenue and profitability margins.

>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

Material covenants

None

Liquidity Position: Adequate

The company reported net cash accruals of Rs.1.50 crore during FY21 (Rs.1.38 crore during 9MFY20). The company does not have any term loans, hence there is no debt repayment obligation. The company maintains cash and bank balance of Rs.1.27 crore as on March 31, 2021. The current ratio remained at 0.99 times during FY21. The company has sanctioned working capital to the tune of Rs.75.30 crore for inventory funding. The sanctioned limit has been increasing over the past years in order to cater to growing WC requirement.

Acuite believes that liquidity profile of the company is expected to remain at adequate level, backed by absence of debt repayment obligation.

Outlook: Stable

Acuite believes that the outlook on CMKPL will remain 'Stable' over the medium term on account of growing presence of MG Motors in Indian market. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	307.06	195.24
PAT	Rs. Cr.	0.69	0.42
PAT Margin	(%)	0.22	0.21
Total Debt/Tangible Net Worth	Times	4.03	2.67
PBDIT/Interest	Times	1.90	2.71

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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