

## Press Release

### Cargo Motors Kutch Private Limited

May 08, 2023



### Rating Downgraded

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

### Rating Rationale

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

#### Rating Rationale

The rating takes into account satisfactory operating business of the company during FY22. Acuite has also considered the growth that has been derived from the growing presence of MG Motors in Indian market and of the automobile industry as a whole. However the same is constrained by leveraged financial risk profile, thin profitability margins arising out of competition from various auto dealers in market and limited bargaining power. The financial risk profile has deteriorated due to the presence of higher dependence on external borrowings.

#### About the Company

Cargo Motors Kutch Pvt Ltd was established in the year 2005 by Mr. Pravesh Nanda at Ahmedabad, Gujarat. The company is engaged in dealership business for MG Motors in Punjab and Haryana since June 2019.

#### 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 FY22

The company has been engaged in dealership business of MG Motors since June 2019. CMKPL reported total operating income of Rs. 353.72 crores during FY 22 as against Rs.283.50 crore during FY21.

##### Experienced Management

The growth in business has been majorly due to the presence of experienced management in the company. The management includes Mr. Jayanat Nanada (Over 3 decades of experience), Mrs. Anita Nanda (30 years of experience), Ms. Devki Nanda (Over 10 years of experience) and Mr. Ravindra Suri (Over 30 years of experience). Hence, Acuite believes that

the presence of experienced management and increase in demand for automobiles will result in further growth in the business.

## **Weaknesses**

### **Intense competition resulting in thin profitability margins**

On profitability margin front, the EBITDA margin remained at 1.77%, whereas net profit margin remained at 0.16%. 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.

### **Leveraged capital structure**

The debt profile of the company majorly comprises of working capital borrowings and unsecured loans. The net worth of the company improved to Rs. 8.92 crore as on March 31, 2022, as against Rs.6.35 crore as on March 31, 2021 on account of equity infusion of Rs. 2 Cr. however it remained low. The capital structure of the company as represented by debt-equity ratio remained at higher level at 2.96 times as on March 31, 2022. The company's increasing working capital limits utilization (inventory funding) over the past years to meet its working capital requirement resulted in increase in leverage and interest cost during FY22.

### **Rating Sensitivities**

- Improvement in revenue and profitability margins.
- Improvement in financial risk profile of the company.
- 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.2.83 crore during FY22. The company does not have any term loans maturity in the said year, hence there is no debt repayment obligation. The company had cash and bank balance of Rs.10.68 crore as on March 31, 2022 however the same is expected to remain lower in coming years. The current ratio remained at 1.02 times during FY22. The company has sanctioned working capital to the tune of Rs.78.20 crore for inventory funding. The sanctioned limit has been increasing over the past years to cater to growing WC requirement.

### **Outlook: Stable**

Acuité 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 further deterioration in financial risk profile or reduction in operating income of the company.

### **Other Factors affecting Rating**

None

## **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	353.72	283.50
PAT	Rs. Cr.	0.57	0.67
PAT Margin	(%)	0.16	0.24
Total Debt/Tangible Net Worth	Times	2.96	4.42
PBDIT/Interest	Times	1.89	2.52

**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 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**

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](http://www.acuite.in).

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 May 2022	Cash Credit	Long Term	42.50	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	34.00	ACUITE BB-   Stable   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE BB-   Stable   Downgraded

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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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