

Press Release

MGT Motors Private Limited

August 05, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	105.00	-	ACUITE A3 Assigned
Bank Loan Ratings	5.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	110.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

ACUITE 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 **ACUITE A three**) on the Rs.110.00 Cr bank facilities of MGT Motors Private Limited (MGTMPL). The outlook is '**Stable**'.

The rating is primarily driven by the significant growth in FY2022. The rating also factors in the experienced management and efficient working capital management of the company. These strengths are, however, offset by the moderate financial risk profile and the competitive automobile dealership industry.

About the Company

Incorporated in 2000, MGT Motors Private Limited is engaged in the dealership of the entire range of commercial vehicles of Tata Motors Limited. The company is promoted by Mr. Kulwant Singh Cheema, Mr. Amardeep Singh Cheema and Mr. Virender Kaur Cheema. MGTMPL operates 3s showrooms in Manipur and Assam, with one showroom in Imphal and the rest four in Guwahati.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MGTMPL while arriving at the rating.

Key Rating Drivers

Strengths

- Long standing operations and experienced management

MGTMPL has a long track of operations spanning over two decades. Moreover, the promoters of the company Mr. Kulwant Singh Cheema, Mr. Amardeep Singh Cheema and Mr. Virender Kaur Cheema has an extensive experience of more than two decades in the auto industry. The company has established strong and comfortable relationship with the dealer

over the years and Acuité believes that, the established market and relationship with the dealer will continue to benefit the company forward.

- **Significant growth in FY2022**

MGTMPL has registered significant increase in the revenues and has generated sales of Rs.424.14 Cr (provisional) in FY22 as compared to Rs.254.84 Cr in FY21. The increase in the top line is due to the increase in the demand of vehicles as a result of boost in the construction activities. Acuité believes that, going forward the company will achieve further growth in the scale of operations owing to the healthy momentum in trade despite geo-political factor and the expected growth in the market for commercial vehicles with high demand from the e-commerce industry and construction segment.

- **Efficient working capital management**

The company's efficient working capital management is marked by Gross Current Assets (GCA) of 87 days (provisional) as on March 31, 2022 as compared to 133 days in 31st March 2021. The GCA days are comfortable on account of low inventory and debtor level during the same period. The inventory period stood at 41 days (provisional) as on March 31, 2022 as compared to 74 days as on 31st March 2021. The debtor period stood comfortable at 40 days (provisional) as on March 31, 2022 as compared to 39 days as on 31st March 2021. Acuité believes that the working capital operations of the company will remain at same level as evident from the efficient collection mechanism and low inventory level over the medium term.

Weaknesses

- **Moderate financial risk profile**

The moderate financial risk profile of the company is marked by modest albeit improving net worth, high gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.26.46 Cr (provisional) as on March 31, 2022 from Rs.23.04 Cr as on March 31, 2021 due to accretion to reserves. Acuité has considered unsecured loans of Rs.1.40 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company stood high at 2.57 times (provisional) as on March 31, 2022 as against 2.48 times as on March 31, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.58 times (provisional) as on March 31, 2022 as against 3.81 times as on March 31, 2021. The moderate debt protection metrics is marked by Interest Coverage Ratio at 1.87 times (provisional) as on March 31, 2022 and Debt Service Coverage Ratio at 1.39 times (provisional) as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.08 times (provisional) as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will improve over the medium term, in absence of any major debt funded capex plans.

- **Exposure to competition in the automotive dealership segment**

The company's operations are dependent on Tata Motors Limited. Though, MGTMPL is an exclusive dealer of Tata Motors Limited's entire range of commercial vehicles (CVs) in Manipur, this does not prevent Tata Motors Limited from appointing any new dealer in Manipur. Moreover, for Guwahati showroom, MGTMPL will face competition from two other dealers of Tata Motors Limited. Automotive manufacturers normally encourage multiple dealers in the same area to improve market penetration. Moreover, manufacturers face competition in their respective segments, and tend to squeeze margins of dealers to reduce cost. MGTMPL also faces competition from dealers of other commercial vehicle manufacturers.

Rating Sensitivities

- Scaling up of operations while improving their profitability margins

- Improvement in the financial risk profile
- Sustenance in their capital structure

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.5.37 Cr (provisional) as on March 31, 2022 against long term debt repayment of Rs.1.72 Cr over the same period. The company has not availed any loan moratorium. The fund based limit of the company is utilized at 54 per cent over the six months ended June, 2022. The cash and bank balances of the company stood at Rs.3.72 Cr (provisional) as on March 31, 2022. The current ratio stood moderate at 1.21 times (provisional) as on March 31, 2022 as compared to 1.27 times as on March 31, 2021. Moreover, the working capital management of the company is efficient in nature marked by Gross Current Assets (GCA) of 87 days (provisional) as on March 31, 2022 as compared to 133 days in 31st March 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on MGTMLP will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	424.14	254.84
PAT	Rs. Cr.	3.42	0.79
PAT Margin	(%)	0.81	0.31
Total Debt/Tangible Net Worth	Times	2.57	2.48
PBDIT/Interest	Times	1.87	1.39

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

None

Any other information

Not Applicable

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

<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
Indusind Bank Ltd	Not Applicable	Ad-hoc Limits (Fund Based)	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	62.50	ACUITE A3 Assigned
TATA Capital Financial Service Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 Assigned
Tata Motors Finance Solutions Ltd.	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Assigned
ICICI Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Assigned
Indusind Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 Assigned

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About Acuité Ratings & Research

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