

## Press Release

### Pathankot Vehicleads Private Limited

May 09, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.08	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	17.00	-	ACUITE A3+   Assigned
Total Outstanding Quantum (Rs. Cr)	63.08	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and a short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.63.08 Cr bank facilities of Pathankot Vehicleads Private Limited (PVPL). The outlook is '**Stable**'.

### Rationale for the rating

The rating takes into account the established relationship with Maruti Suzuki India Limited and extensive experience of the promoters in the vehicle dealership industry. The company continues to enjoy a healthy market share for passenger vehicles (PVs) in its operating area. The rating also factors in company's healthy debt protection metrics, steady business risk profile, adequate liquidity position and efficient working capital management of the company. The rating is, however, constrained by the inherently thin margins in the auto dealership business due to limited bargaining power. The rating also notes the company's susceptibility to the cyclical nature of the Indian PV industry and the intense competition among the dealers.

### About the Company

Incorporated in 1995, Pathankot Vehicleads Private Limited (PVPL), is an authorised dealer for all passenger vehicles of Maruti Suzuki India Limited (MSIL) in Punjab and Himachal Pradesh. The company is currently promoted by Mr. Devinder Singh Rana and Mrs. Gunjan Rana, and it is engaged in the sale of passenger vehicles, servicing, selling pre-owned cars (Maruti True Value), and spare parts.

The company operates around 20 showrooms in a mix of 3S model (Sales, Service, Spares) and provides Maruti Finance at reasonable interest rates, and deals in Maruti Insurance for new vehicles and renewals.

### Analytical Approach

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

### Key Rating Drivers

## Strengths

### Long operational track record and experienced management

PVPL has been operating in the vehicle dealership sector for more than 2.5 decades. The promoters, Mr. Devender Singh Rana and Mrs. Gunjan Rana, also have about three decades of combined industry experience. The extensive experience of the management has helped the company to establish long-term relation with the Maruti Suzuki India Limited and strengthen its market position in Punjab and Himachal Pradesh.

Acuité believes that the long operational track record of PVPL and promoters' extensive understanding and expertise will benefit the company going forward, resulting in steady growth in the scale of operations.

### Steady business risk profile

The revenue of the company has moderated to Rs.433.71 Cr as on March 31, 2022 as against Rs.439.68 Cr in the previous year majorly due to the decline in sales volume on account of global semiconductor shortage during that period. However, semiconductor availability has been improving on a sequential basis, which along with a healthy demand has helped the company to report a revenue of Rs.408.42 Cr for 10MFY2023 (Prov) and is expected to achieve a turnover of around Rs.490.00 Cr in FY2023.

Going forward, Acuite believes, the revenue of the company will sustain at a healthy level backed by increasing demand for passenger vehicle in the near to medium term.

The company has been reporting healthy profitability and RoCE on account of the significant revenue contribution from the spares and service income and revival in the demand of PV in the domestic market. The operating margin of the company improved to 4.89 per cent in FY2022 as against 3.94 per cent in FY2021. Further, the EBITDA margin stood at 5.03 per cent for 10MFY2023 (Prov). The PAT also improved to 1.75 per cent in FY2022 as against 0.73 per cent in FY2021. The steady profitability margins have translated into healthy RoCE levels for the company of about 18.44 per cent in FY2022 as against 13.66 per cent in FY2021.

Acuite believes that the revenues derived from the higher margin segments including workshop income, sale of spares and accessories shall continue to support the profitability to an extent.

### Efficient working capital management

The efficient working capital management of the company is marked by Gross Current Assets (GCA) of 73 days in FY2022 as against 69 days in FY2021. The debtor period improved and stood comfortable at 43 days as on March 31, 2022 as against 50 days as on March 31, 2021. Further, the inventory period stood comfortable at 24 days as on March 31, 2022 as against 17 days as on March 31, 2021.

Acuité believes that the working capital management of the company will remain almost at the same level over the medium term as evident from the efficient collection mechanism and low inventory levels.

## Weaknesses

### Average financial risk profile

The average financial risk profile of the company is marked by modest net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.44.27 Cr as on March 31, 2022 from Rs.36.67 Cr as on March 31, 2021 due to accretion of profits. Gearing of the company has improved over the years with repayment of term loans and stood moderate at 1.38 times as on March 31, 2022 as compared to 1.56 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.09 times as on March 31, 2022 as compared to 2.57 as on March 31, 2021. The comfortable debt protection metrics is marked by Interest Coverage Ratio at 2.58 times and Debt Service Coverage Ratio at 1.69 times as on March 31, 2022 as against 1.80 times and 1.58 times respectively as on March 31, 2021. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.18 times as on 31st March 2022 as against 0.12 times as on 31st March 2021.

Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

## Exposure to competition in automotive dealership segment

The company's operations are dependent on Maruti Suzuki India Limited. Though, PVPL is an exclusive dealer of Maruti Suzuki India Limited's entire range of passenger vehicles (PVs) in Punjab and Himachal Pradesh, this does not prevent Maruti Suzuki India Limited from appointing any new dealer in J&K. Automotive manufacturers normally encourage multiple dealers in the same area to improve the market penetration. Moreover, manufacturers face competition in their respective segments, and tend to squeeze margins of dealers to reduce cost. PVPL also faces competition from dealers of other commercial vehicle manufacturers.

## Rating Sensitivities

- Sustenance of the profitability margins while scaling up of operations.
- Elongation of working capital cycle.

## Material covenants

None.

## Liquidity Position Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.10.94 Cr as on March 31, 2022 against long term debt repayment of Rs.3.05 Cr over the same period. The cash and bank balance stood at Rs.5.42 Cr and a fixed deposit of Rs.8.15 Cr (~Rs.6.00 Cr encumbered) as on March 31, 2022. Further, the fund based remained moderately utilised at 89.31 per cent for the six months ended February, 2023. The current ratio stood moderate at 1.18 times as on March 31, 2022 as against 1.06 times as on March 31, 2021. Moreover, the working capital management of the company is efficient marked by Gross Current Assets (GCA) of 73 days in FY2022 as compared to 69 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

## Outlook: Stable

Acuité believes that PVPL will continue to benefit over the medium term from its experienced management and established association with MSIL. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements or further elongation of working capital cycle.

## Other Factors affecting Rating

None.

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	433.71	439.68
PAT	Rs. Cr.	7.60	3.21
PAT Margin	(%)	1.75	0.73
Total Debt/Tangible Net Worth	Times	1.38	1.56
PBDIT/Interest	Times	2.58	1.80

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

CRISIL, vide its press release dated March 27, 2023 had denoted the rating of Pathankot Vehicleleads Private Limited as 'CRISIL BB+/Stable/A4+; ISSUER NOT COOPERATING'.

Care Ratings vide its press release dated 28.11.2022, had downgraded the company to CARE BB-/Stable/CARE A4; Issuer Not Cooperating

### 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, 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:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab and Sind Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A3+   Assigned
Punjab and Sind Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.50	ACUITE BBB   Stable   Assigned
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	7.40	ACUITE BBB   Stable   Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.30	ACUITE BBB   Stable   Assigned
Punjab and Sind Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.36	ACUITE BBB   Stable   Assigned
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.52	ACUITE BBB   Stable   Assigned

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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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