

K S Motors Private Limited (Revised)

February 1, 2022

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------------------|--|--|--|
| Long Term Bank Facilities | 18.39 | CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*) | Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category |
| Total Bank Facilities | 18.39 (Rs. Eighteen Crore and Thirty-Nine Lakhs Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from K S Motors Private Limited (KSMPL) to monitor the ratings vide e-mail communications dated December 06, 2021, January 17, 2022, January 19, 2022, January 25, 2022 and January 27, 2022 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on KSMPL's bank facilities will now be denoted as **'CARE B; Stable; ISSUER NOT COOPERATING*'**. **Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

The revision in rating takes into account non-availability of adequate latest information (including latest financial of FY21, FY refers to the period of April 1 to March 31).

The rating assigned to the bank facilities of KSMPL continues to remain constrained on account of its thin profitability margins owing to trading nature of business along with leveraged capital structure and moderate debt coverage indicators. The rating is further constrained on account of volume driven business with high competition associated with the automobile dealership industry along with limited bargaining power with its principals.

The above constraints outweigh the benefits derived from the experience of the promoters in automobile dealership business and long and established relationship with leading Original Equipment Manufacturer (OEM), i.e. Mahindra & Mahindra Limited, TVS Motor Company and Ford Motors.

Detailed description of the key rating drivers

At the time of last rating on January 27, 2021, the following were the rating weaknesses and strengths (updated for latest available information from Registrar of Companies, lender feedback and other publicly available information).

Key Rating Weaknesses

Increase in total operating income in FY20 alongwith thin profitability margins: During FY20, KSMPL's Total Operating Income (TOI) has improved by around 9.83% on y-o-y basis to Rs.732.23 crore in FY20 as against Rs.666.72 crore in FY19 on account of improvement in sales volume of different models of M&M including Bolero, Pick-up, XUV 300 and as well as improvement in sales of heavy commercial vehicle of M&M. Further, KSMPL's has reported TOI of Rs.318.62 crore in 8MFY21. The profitability of the company remained thin mainly on account of trading nature of the business which is inherent to the automobile dealership business. PBILDT margin improved by 20 bps and stood at 3.52% in FY20 as against 3.32% in FY19; improved on account of higher income from servicing and incentives received during the year. In line with PBILDT margin, PAT margin of the company improved by 26 bps and stood at 0.37% in FY20 as against as against 0.11% in FY19. On account of improvement in profitability, GCA also increased by 43.88% to Rs.8.36 crore in FY20.

Leveraged capital structure and moderate debt coverage indicators: The capital structure of KSMPL remained leveraged with an overall gearing of 20.10 times as on March 31, 2020 which improved from 42.74 times as on March 31, 2019 on account of accretion of profit to reserve along with lower total debt as on balance sheet date. KSMPL's debt coverage indicators improved significantly although stood moderate with total debt to GCA of 14.89 times as on March 31, 2020 as against 25.70 times as on March 31, 2019 on account of increase in its GCA level along with lower total debt as on balance sheet date. PBILDT interest coverage improved and remained moderate at 1.51 times in FY20 as compared to 1.36 times in FY19 due to improvement in operating profitability.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

*Issuer did not cooperate; Based on best available information

Limited bargaining power with principal automobile manufacturer: KSMPL's business model is largely in the nature of trading wherein profitability margins are very thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer. The margin on products is set at a particular level by the principal manufacturer thereby restricting the profitability.

Volume driven business with intense competition in the auto dealership industry: Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like M&M, MSIL, Tata Motors, Hyundai, Honda, and Toyota etc. in the passenger vehicle segment as well as commercial vehicle segment. Original Equipment Manufacturers (OEMs) are encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Entry of the global players in the Indian market has further intensified the competition.

Impact of COVID-19: KSMPL's operations were closed from March 21, 2020 to May 04, 2020 due to lockdown imposed by the Government and operations were hampered during this period due to which the company expects decline in its total operating income in FY21 on y-o-y basis. KSMPL had started operations from first week of May, 2020. Currently, as per the management, operations are running smoothly and company is not facing any issues with respect to labour, logistics.

Liquidity: Stretched

The company's liquidity is stretched with tightly matched cash accruals vis-à-vis debt repayments. Inventory management is crucial for KSMPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. KSMPL receives inventory either against advances or on cash payments to its principal. The average inventory period of the company stood at 28 days in FY20; declined from 40 days in FY19 due to decline in inventory level. Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up marginal time, the average collection period of the company stood at 15 days in FY20 (10 days in FY19). Further, the operating cycle declined to 40 days for FY20 as against 47 days for FY19 due to decline in inventory period. As per banker, the average utilization of its Cash Credit limits stood around 80% during past 12 months ended December, 2021. Further, KSMPL has unencumbered cash and cash equivalent of Rs.4.06 crore as on March 31, 2020. Cash flow from operating activities increased to Rs.45.62 crore in FY20 as against Rs.27.65 crore in FY19 due to improvement in operating profitability level and decrease in working capital gap.

Key Rating Strengths

Vast experience of the promoters in the automobile dealership business: The overall management of KSMPL is looked after by Mr Kishore Singh Gehlot (Managing Director) who has an experience of around four decades in the automobile dealership business. Mr Kishore Singh Gehlot is ably supported by his son Mr Karan Gehlot who has experience of more than a decade in automobile dealership business. They in turn are supported by well qualified and experienced management team.

Established track record of operations with long standing association with its principal – M&M, TVS and receipt of dealership of Ford Motors: KSMPL is engaged in automobile dealership business and has a long standing association with its principals M&M since 1990. KSMPL currently operates one M&M 3-s (Sales, Service and Spares) Showroom each at Jaipur, Tonk, Dausa, Gangapurcity, Sawai Madhopur, Kotputali, Jaitpura in Rajasthan and one 2-s (sales and spares) outlet at Jaipur in Rajasthan. KSMPL was also awarded with dealership of TVS Motor Company in the year 1985 and currently operates two 3-s (Sales, Service and Spares) Showrooms at Jaipur. Furthermore, KSMPL has started the dealership for Ford Motors, which was earlier with its group entity K.S. Cars Pvt. Ltd., in September, 2020 and is currently operating two 3-s (Sales, Service and Spares) Showrooms in Jaipur. KSMPL has an integrated mode of operations, functioning in various verticals of automobile dealership business to provide one stop solution to its customers. It has service stations, spare parts distribution, and tie-ups for vehicle finance and insurance which provide the customer with complete solution at single point.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non- Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Auto Dealerships](#)

About the company

Jaipur based K S Motors Private Limited (KSMPL) is looked after by Mr Kishore Singh Gehlot who has an experience of around four decades in the automobile dealership business. Mr Kishore Singh Gehlot is ably supported by his son Mr Karan Gehlot who has experience of more than a decade in automobile dealership business. KSMPL currently operates one M&M 3-s (Sales, Service

and Spares) Showroom each at Jaipur, Tonk, Dausa, Gangapurcity, Sawai Madhopur, Kotputali, Jaitpura in Rajasthan and one 2-s (sales and spares) outlet at Jaipur in Rajasthan. KSMPL has also dealership of TVS Motor Company for two Wheelers for Jaipur. Furthermore, KSMPL has started the dealership for Ford Motors, which was earlier with its group entity K.S. Cars Pvt. Ltd., in September, 2020 and is currently operating two 3-s (Sales, Service and Spares) Showrooms in Jaipur.

| Brief Financials (Rs. Crore) | FY20 (A) | FY21 | H1FY22 |
|------------------------------|----------|------|--------|
| Total operating income | 732.23 | NA | NA |
| PBILDT | 25.75 | NA | NA |
| PAT | 2.70 | NA | NA |
| Overall gearing (times) | 20.10 | NA | NA |
| Interest coverage (times) | 1.51 | NA | NA |

A: Audited; NA: Not Available

As per the provisional result for 8MFY21, KSMPL has reported TOI of Rs.318.62 crore.

Status of non-cooperation with previous CRA: CRISIL vide its press release dated April 16, 2020 has classified the rating under issuer non-cooperation category in absence of adequate information and lack of cooperation from the client.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments / Facilities

| Name of the Instrument | ISIN | Date Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-----------------------------|------|---------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 13.00 | CARE B; Stable; ISSUER NOT COOPERATING* |
| Fund-based - LT-Term Loan | | - | - | Jan, 2024 | 5.39 | CARE B; Stable; ISSUER NOT COOPERATING* |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/ Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|---|-----------------|--------------------------------|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT-Cash Credit | LT | 13.00 | CARE B; Stable; ISSUER NOT COOPERATING# | - | CARE B+; Stable | 1)CARE B+; Stable (02-Jan-20) | 1)CARE B+; Stable (20-Mar-19) |
| 2 | Fund-based - LT-Term Loan | LT | 5.39 | CARE B; Stable; ISSUER NOT COOPERATING# | - | CARE B+; Stable | 1)CARE B+; Stable (02-Jan-20) | 1)CARE B+; Stable (20-Mar-19) |

#Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this company

| Sr. No | Name of instrument | Complexity level |
|--------|-----------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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About CARE Ratings:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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