KTL Private Limited

December 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	8.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	4.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	45.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**57.00 (₹ Fifty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of KTL Private Limited (KTL) continue to derive strength from the experienced and resourceful promoters with long track record of operations, diversified revenue stream and Moderate financial risk profile coupled with efficient working capital management. However, the rating strengths are partially offset by inherent competition and cyclical nature of the auto industry along with limited bargaining power with principal automobile manufacturer.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in scale of operations above 750 crores along with PBILDT margins improving above 4.50%.
- Improvement in the solvency position due to lower dependence on working capital finance with an overall gearing ratio of below 0.50x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operations or PBILDT margins falling below ~1.5%.
- Any significant deterioration in the solvency position with overall gearing ratio beyond 2.50x owing to increased working capital dependence.

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoters with long track record of operations.

KTL Private Limited (KTL) was incorporated by Mr. Mahendra Kumar Agrawal who is also the current managing director of the company. He holds an experience of around three decades in automobile dealerships in the state of Uttar Pradesh. Other directors of the company include Ms. Swati Agrawal, Ms. Manju Agrawal, Mr. Prashant Mansinghka and Ms. Meghna Mansinghka. Further, the promoters have also supported the operations through infusion of unsecured loans outstanding of Rs 14.08 crores as at March 31,2022.

Diversified revenue stream.

KTLPL has a healthy mix of revenue from vehicle sales under Maruti's stores (Maruti Nexa & Maruti Arena) which was around 84.52% (PY: 86.65%), sale of spares and accessories comprises 10.96% (PY: 9.49%) and net workshop income of 3.15% (PY: 2.20%) during FY22. By providing all services under one roof, the company has been able to attract many customers and has diversified its revenue stream along with maintaining moderate profitability margins on corporate level. Apart from this the company is also operating TVS showroom selling two wheelers, contributing around 2% of the total operating income in FY22.

Moderate financial risk profile.

Company's scale of operations has grown by 18.59% to Rs 553.97 crores during FY22 as compared to Rs. 467.12 crores during FY21 thereby generating cash accruals of Rs 13.33 crores as against Rs. 7.45 crores during FY21. Further, company has already booked revenue of Rs. 319.19 crores during H1FY23. The profitability margins of the company grown during the FY22 as compared to FY21 marked by PBILDT margin and PAT margin of 3.79% (PY:2.77%) and 1.89% (PY: 1.09%) respectively. The improvement in profitability was majorly due to rise in net workshop income to Rs. 17.44 crores during FY22 as compared to Rs.10.27 crores during FY21. Moreover, due to rise in PBILDT, interest coverage indicator has also been improved marked by interest coverage ratio of 4.59 times during FY22 as compared to 2.87 times in FY21. The capital structure of the company remains comfortable with slight deterioration during FY22 reflected by long term debt to equity ratio and overall gearing ratio of 0.47x and 1.22x respectively during FY22 as compared to 0.41x and 0.88x respectively during FY21. The deterioration was mainly on account of rise in working capital utilisation on balance sheet date in FY22 as compared to FY21 followed by capex of Rs 29.18 crores during FY22 was majorly funded through internal accruals with debt portion of Rs 7.93 crores.

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

Efficient working capital management
The operating cycle of the company improves at 24 days in FY22 as compared to 32 days during FY21 particularly driven by improvement in average inventory holding to 12 days in FY22 as compared to 24 days in FY21 whereas average collection period of the company remains around 14 days due to time required by vehicle financers in release of payments on behalf of their borrowers and receivable from insurance companies on account of workshop income under insurance claims. Creditors period remains negligible around 2 days during FY22 due to policy of advance procurement from the principal manufacturer MSIL.

Key rating weaknesses
Limited bargaining power with principal automobile manufacturer
Being primarily into auto dealership business, KTL's business model is largely in the nature of trading wherein profitability margins are inherently thin. Moreover, in this business a dealer has very less bargaining power over principal manufacturer. The margin of products is set at a particular level by the principal manufacturer thereby restricting any incremental income for KTL.
Inherent competition and cyclical nature of the auto industry
The Indian automobile industry is highly competitive in nature as there are large numbers of players operating in the market like MSIL, Tata Motors, Hyundai, Honda, Toyota, etc. in the passenger vehicle segment. Original Equipment Manufacturers (OEMs) are encouraging more dealerships to improve penetration and sales, thereby increasing competition amongst dealers. Dealers' fate is also linked to the industry scenario and performance of OEMs. The company is dealer of MSIL only and derives its total operating income largely from sale of MSIL's passenger cars. Hence, performance and prospects of the company is highly dependent on MSIL being its principal. The automotive sector is also dependent on economic growth, credit conditions and consumer confidence in the economy. The auto industry is inherently vulnerable to economic cycles and is highly sensitive to interest rates and fuel prices. Fuel prices also have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decisions.

Liquidity: Adequate
The company has a total debt repayment obligation of Rs. 2.58 crores in FY23, which will be met through the operational cash flow. Company has earned Gross Cash accruals (GCA) of Rs. 13.33 crores during FY22 as against Rs. 7.45 crores during FY21. The current and quick ratio stood at a moderate level of 1.26x and 0.89x, as on March 31, 2022. Overall operating cycle of the company also remains moderate at 24 days during FY22 as compared to 32 days during FY21 which has improved majorly on account of improvement in average inventory holding. The average working capital utilization of the company remains moderate during the last 12 months ending October 2022.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading
Auto Dealerships

About the company
Kanpur-based KTL Private Limited was incorporated in 1991 by Mr. Mahendra Kumar Agrawal with an objective to commence automobile dealership business. The company was awarded with dealership of Maruti Suzuki India Limited (MSIL; rated CRISIL AAA/ CRISIL A1+, Outlook: Stable retained on September 15,2022) and TVS scooty. KTLPL currently operates automobile retail showrooms and service centres/body repair workshops for new cars, used cars, and repairing service. The company sells a varied range of Maruti vehicles along with services, repairs and spare parts through its various showrooms.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30,2022 (UA)
Total operating income	467.12	553.97	319.19
PBILDT	12.92	20.97	NA
PAT	5.09	10.48	NA
Overall gearing (times)	0.88	1.22	NA
Interest coverage (times)	2.87	4.59	NA

A: Audited; UA: Un-audited; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL has retained and continued the rating assigned to bank facilities of KTL Private Ltd as CRISIL BB+/CRISIL A4+; Issuer did not co-operate; Based on best available information vide its PR dated March 17,2022. India Ratings has also retained and continued the rating assigned to bank facilities of KTL Private Ltd as IND BB/IND A4+; Issuer did not co-operate; Based on best available information vide its PR dated October 19,2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	8.00	CARE BBB-; Stable
Fund-based - ST-Others		-	-	Inventory funding limit	45.00	CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	4.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Oct-21)	-	-
2	Fund-based - ST-Others	ST	45.00	CARE A3	-	1)CARE A3 (11-Oct-21)	-	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	4.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Oct-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: 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 - ST-Others	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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