

## Kiran Automobiles Private Limited

November 07, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	15.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
<b>Total Bank Facilities</b>	<b>15.00</b> <b>(₹ Fifteen Crore Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kiran Automobiles Private Limited (KAPL) factors in the low profitability margins along with modest scale of operations from FY19 to FY21, albeit improvement witnessed in FY22 (refers to the period April 1 to March 31), limited geographical presence along with dependency on fortunes of principal with low bargaining power. Further the rating also remains constrained from competitive and cyclical nature of the industry. The rating derives strength from experienced promoters and moderate business risk profile & established association with Mahindra and Mahindra (M&M). Further the rating of KAPL also remains supported with satisfactory capital structure.

### Rating Sensitivities

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

- Increase in scale of operations beyond Rs.450 crore and operating margins above 4.5%.
- Improvement in operating cycle below 50 days on sustained basis

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

- Decline in scale of operations below Rs.200 crore and operating margins below 3%.
- Discontinuance of dealership with Mahindra & Mahindra Ltd.
- Deterioration in overall gearing ratio beyond 3x.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Low profitability margins along with modest scale of operations from FY19 to FY21, albeit improvement witnessed in FY22.**

The TOI of the company witnessed a de-growth of 33.44% from FY19 to FY21. However, the same improved to Rs.235.44 crore (26.98% improvement y-o-y) in FY22 (Prov.) mainly due to improved industry demand scenario. The profitability margins of the company continued to remain low mainly due to the trading nature of operations coupled with limited pricing power as the same is fixed by M & M. However, the PBILDT margins improved to 3.61% in FY22 (Prov.) from 3.27% in FY19 mainly due to decline in the employee cost over the years. Accordingly, the PAT margins improved from 1.55% in FY19 to 1.57% in FY22 (Prov.). The company earned cash accruals of Rs.5.34 crore as against debt repayment obligations of Rs.0.56 crore in FY22 (Prov.).

#### Limited geographical presence

KAPL is an authorized dealer of Mahindra & Mahindra Ltd. for entire range of passenger vehicles and commercial vehicle (excluding heavy vehicles) in five districts of Bihar namely, Patna, Nalanda, Jehanabad, Vaishali, and Saran. Although the company in its area of operations, all of this are in Bihar, thereby leading to geographically concentrated operation.

#### Dependency on fortunes of principal with low bargaining power

The company'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 the principal manufacturer (M&M). The margin on products is set at a particular level by the principal manufacturer thereby restricting the company to earn incremental income. The company is exposed to the risk of change in policy by the principal with regards to the dealership.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Competitive and cyclical nature of the industry

The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the movement in interest rates and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Fuel prices 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 decision. The company thus faces significant risks associated with the dynamics of the auto industry.

### Key Rating Strengths

#### Experienced promoters

KAPL is promoted by Mr. Nitin Kumar and Aditya Raj. The promoters have a vast experience of around a decade in auto dealership. Due to his long-standing experience, he has been able to increase his dealership network across Bihar. The company is engaged in dealership of passenger vehicle (PV) and commercial vehicle (CV) of M& M. The day-to-day affairs of the company are looked after by them assisted with a team of experienced professionals.

#### Moderate business risk profile and established association with M&M

KAPL commenced commercial operations in March 2013. Despite the limited track record of operations, and exposure to intense competition; operating income was moderate at Rs 237.44s crore in FY22 (Prov.). Over the past 8 years, the company has developed a strong relationship with its principal supplier, M&M. In June 2014, it obtained dealership of M&M's commercial vehicles (CVs) for five districts of Bihar and ramped up operations. The company has established a robust infrastructure with a 3S (sales, spares, and services) facility, one showroom, one workshop, and a sales office in its area of operations.

#### Satisfactory capital structure

The capital structure of the company has improved over the years marked by improvement in overall gearing ratio from 2.19x as on March 31, 2019, to 1.39x as on March 31, 2022 (Prov.) due to gradual accretion of profits to reserves. The Total debt/GCA of the company though moderated slightly from 7.45x as on March 31, 2019, to 7.95x as on March 31, 2022 (Prov.) due to slight decline in GCA. However, the PBILDT interest coverage ratio improved from 2.82 times in FY19 to 2.90 times in FY22 (Prov.).

#### Liquidity: Adequate

Adequate liquidity characterized by cash accruals of Rs.5.34 crore as against debt repayment obligation of only Rs.0.55 crore in FY22 and cash and bank balance of Rs.8.71 crore as on March 31, 2022 (Prov.). The average utilization of the fund-based limits stood at around 80% during last 12 months ended June'22. The current ratio stood at 1.35x as on March 31, 2022 (Prov.).

**Analytical approach:** Standalone

#### Applicable Criteria

[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](#)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	H1FY23
Total operating income	186.70	237.42	NA
PBILDT	6.38	8.56	NA
PAT	2.60	3.72	NA
Overall gearing (times)	1.25	1.39	NA
Interest coverage (times)	2.39	2.90	NA

A: Audited, P: Provisional, NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**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		-	-	-	15.00	CARE BB+; Stable

**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	15.00	CARE BB+; Stable				

**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

**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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### About us:

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