Kuldeep Motors Private Limited

December 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.94 (Reduced from 16.63)	CARE BB+; Stable	Upgraded from CARE BB; Stable
Long Term / Short Term Bank Facilities	50.00 (Enhanced from 39.37)	CARE BB+; Stable / CARE A4+	Upgraded from CARE BB; Stable / CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the ratings assigned to the bank facilities of Kuldeep Motors Private Limited (KMPL) takes into consideration sequential growth in scale of operations on the back of healthy sales volume owing to healthy demand for premium segment cars in the operating region supported by opening of new showrooms and consistent improvement in profitability margins over the past 3 fiscals ending FY24 (refers to the period April 1 to March 31). The ratings, further, continue to draw comfort from the experienced promoters and sole dealer of Maruti Suzuki in the district of Etawah, Uttar Pradesh with multiple showrooms with established business presence in Etawah district and its long-standing association with strong brand value of Maruti Suzuki India Limited. The ratings, however, continue to remain constrained by weak financial risk profile marked by leveraged capital structure and weak debt coverage indicators, pricing constraints and margin pressure arising due to intense competition from multiple auto dealers in the market and the cyclicality associated with the automobile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in the scale of operations as marked by total operating income of above Rs.400.00 crore along with PBILDT margin of above 5.00% on sustained basis.
- Improvement in the capital structure with an overall gearing of less than 2.00x.

Negative factors

- Any significant deterioration in the capital structure of the company as marked by overall gearing ratio of above 4.00x.
- Decline in scale of operations by more than 30% from envisaged level, thereby leading to decline in profitability margins as marked by PBILDT margin below 2.00% on a sustained basis.
- Significant deterioration in working capital cycle, thereby leading to weakening of liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that entity will continue to benefit from the experienced promoters and is likely to maintain its sustainable credit risk profile and liquidity position.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations: The scale of operations of the KMPL has witnessed a growing trend for the past three financial years (FY22-FY24) and has grown at a compounded annual growth rate (CAGR) of ~21.13% over the past 3 fiscals ending FY24. The total operating income (TOI) and gross cash accruals of KMPL has increased to Rs.255.55 crore and Rs.3.90 crore respectively, in FY24 from Rs.212.06 crore and Rs.2.01 crore respectively, in FY23 reflecting y-o-y growth rate of 20.51% in TOI. The same was account of increase in vehicles sales volume by ~25% owing to significant improvement in Nexa showroom performance, mainly driven by the high demand for premium vehicles and new launches during the year by Maruti Suzuki in the SUV segment. Further, the company has achieved total operating income of ~Rs.177.00 crore during 8MFY25 (refers to the period from April 1, 2024 to November 30, 2024; based on provisional results) and is expected to achieve a turnover in the range of ~Rs.270.00-275.00 crore for FY25 on the back of strong demand expected for new model launches, improving penetration of cars volume in PV segment and SUVs. Further, the company is also planning to launch two new Nexa showrooms in Mainpuri and Auriya, three new Arena showrooms in Karhal, Bewar and Ghirauli, two new Arena workshops in Babarpur Ajitmal and Chakar Nagar along with

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

additional Bodyshop in Nexa showroom in Etawah in which is expected to be operational by Q4FY25/Q1FY26. Furthermore, the company has also strategically positioned its Ghiror, Bela and Bhiduna showrooms as R-outlets across Etawah district to serve the rural areas of the state.

Improvement in profitability margins: KMPL's profitability margins are thin due to the inherent nature of the auto dealership business, where revenues are primarily driven by car volumes, but profits come from the sale of spares, accessories, and service income, as the latter fetches higher profit margins. Additionally, dealers have limited negotiating power with the principal and has no control over the vehicle's selling price, which is set by Maruti. However, PBILDT margin of the company improved and stood at 4.23% in FY24 as against 3.75% in FY23 owing to increase in sale of premium segment vehicles where the margins are slightly better compared to others. Further, PAT margin also improved and stood at 1.14% in FY24.

Experienced promoters with sole dealer in Etawah district, Uttar Pradesh: KMPL was incorporated in 2007 and has been managed by Mr. Harjeet Singh, Mr. Taran Pal Singh and Mr. Saravjeet Singh Kalra. Mr. Harjeet Singh, Mr. Taran Pal Singh has experience of around four decades, respectively in the similar industry through other entities, while Mr. Saravjeet Singh Kalra has more than one decade of experience in the automobile industry. Furthermore, the promoters are assisted by a team of qualified managerial personnel and technical team having considerable experience in their respective fields. Further, leveraging the promoters' expertise and their well-established relationship with MSIL, KMPL is an exclusive sole dealer of Maruti Suzuki in Etawah district, Uttar Pradesh and currently operates eight showrooms and one true value outlet in the state of Uttar Pradesh. It has opened four Arena showrooms in Etawah, Mainpuri, Auraiya, Ghiror along with a Nexa showroom in Etawah. In July, 2024, the company has launched three new Arena showrooms in Bhartana, Bela and Bhiduna.

Long-standing association with strong brand value of Maruti Suzuki India Limited: Since 2008, KMPL is an authorized dealer of Maruti Suzuki India Limited (MSIL) and KMPL's performance is strongly correlated with the performance of its principal’s vehicles in the market and their ability to launch new products as per the market dynamics. MSIL is one of the largest automobile manufacturers and a leading player in the passenger vehicle (PV) segment reflected by its substantial market share of around 40% in FY24, as reported by The Federation of Automobile Dealers Associations (FADA) in their March 2024 report published on April 8, 2024. Thus, strong brand value of Maruti enables the company to gain access to wide customer base and healthy demand of its products.

Working capital efficient nature of operations: The operations of the company is working capital efficient as marked by working capital cycle of 42 days in FY24 (P.Y.: 33 days). The slight moderation in working capital can be attributed to the pent-up demand, which required the company to maintain higher inventory levels to meet increased vehicle demand. Additionally, company's showrooms need to stock different models of vehicles and spare parts with each having various variants to ensure ample availability and visibility to meet customers’ requirements at all times. While the company predominantly conducts sales on a "Cash and Carry" basis, approximately 75% of vehicles are financed through banks/financial institutions, resulting in a collection period of around 13 days in FY24. Furthermore, the company's average creditors' payment period is approximately 2-3 days on account of lower bargaining power with the OEM (i.e., Maruti Suzuki).

Key weaknesses

Weak financial risk profile: The company has weak financial risk profile owing to high debt levels required to fund the inventory requirements of the company. The capital structure of the company stood leveraged as marked by overall gearing ratio which stood at 3.25x as on March 31, 2024, which deteriorated from 2.99x as on March 31, 2023 on account of increased working capital borrowings to support growing scale and higher inventory requirements.
Further, on account of high debt levels, the debt coverage indicators of the company as marked by interest coverage ratio stood weak at 1.86x in FY24 (P.Y.: 1.94x). Despite increase in total debt, total debt/GCA witnessed improvement from 23.17x as on March 31, 2023 to 16.22x as on March 31, 2024 on account of increase in PBILDT consequently leading to high GCA, however, the same continues to remain high.

Pricing constraints and margin pressure arising due to intense competition from multiple auto dealers in the market: The base prices for all the passenger vehicles are fixed by the OEM’s and the dealers have little leeway to enable and get incremental profits. The market also faces aggressive competition from various other well-established automobile dealers. In order to capture larger market share in a competitive market, KMPL has to resort to offering better buying terms like allowing discounts on purchases or giving freebies which creates margin pressure and negatively impact the earning capacity of the company. The entry of various global OEM’s in the Indian market has further intensified the competition. Due to very high competition in the industry, dealers are also forced to pass on discounts and exchange schemes to attract customers which restrict their margins. Further, the company operates in catchment area with lower market penetration.

Cyclicality associated with the automobile industry: The automotive sector is dependent on economic growth, credit conditions and consumer confidence. 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. Further, the policies implemented by the government also have a direct bearing on the sale of passenger vehicles. The company thus faces significant risks associated with the dynamics of the auto industry.

Liquidity: Adequate

The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported net cash accruals (NCA) to the extent of Rs.3.90 crore during FY24 and is expected to generate envisage NCA of Rs.4.50 crore for FY25 against repayment obligations of ~Rs.2.70 crore in same year. Further, the average utilization of its working capital limits stood around 60%-70% for the past 12 month's period ending November 2024. The company has adequate liquidity in the form of free cash and bank balances which stood at Rs.24.19 crore as on March 31, 2024. The company has undertaken capex plan of ~Rs.12.00 crore to open five new showrooms, two workshops and one body shop in various areas of Etawah. The capex is proposed to be funded through term loan of ~Rs.9.00 crore and rest through internal accruals and unsecured loans. The loan is yet to be tied-up. As on December 23, 2024, it has incurred ~Rs.5.00-6.00 crore towards construction works and the same being funded through cash balances maintained by the company. The same is expected to be operational by Q4FY25/Q1FY26.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Auto Dealer
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	Auto Dealer

Etawah (Uttar Pradesh) based Kuldeep Motors Private Limited (KMPL) was incorporated in October, 2007 as a private limited company. The company is currently managed by Mr. Harjeet Singh, Mr. Taran Pal Singh and Mr. Saravjeet Singh Kalra.
The company is an authorized dealer of Maruti Suzuki India Limited (MSIL) for sale of passenger vehicles (PV) and its spare parts. The company operates through its 3S (Sales, spare, & services) two showrooms at Etawah, along with other six outlets located at Mainpuri, Auraiya, Ghiror, Bhartana, Bela and Bhiduna (all in Uttar Pradesh). Further, the company is also engaged in the refurbishment of second-hand vehicles through its Maruti Suzuki True Value outlets located at Etawah (Uttar Pradesh), which are then certified by Maruti for further selling and purchasing. KMPL currently sells all models of Maruti through its showrooms/ outlets.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (Prov.)*
Total operating income	212.06	255.55	177.00
PBILDT	7.95	10.82	NA
PAT	1.33	2.90	NA
Overall gearing (times)	2.99	3.25	NA
Interest coverage (times)	1.94	1.86	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2024 to November 30, 2024.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	March, 2028	5.94	CARE BB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	50.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	5.94	CARE BB+; Stable	-	1)CARE BB; Stable (06-Oct-23) 2)CARE BB; Stable (04-Apr-23)	1)CARE BB; Stable (05-Jul-22)	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	50.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (06-Oct-23) 2)CARE BB; Stable / CARE A4 (04-Apr-23)	1)CARE BB; Stable / CARE A4 (05-Jul-22)	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level

1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

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

Note on the 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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