K.H.T Agencies Private Limited

December 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	44.66 (Reduced from 53.06)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Short term Bank Facilities	65.87 (Enhanced from 37.00)	CARE A4 (A Four)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Total Bank Facilities	**110.53 (Rs. One Hundred Ten Crore and Fifty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of K.H.T. Agencies Private Limited were earlier placed under Issuer Not Cooperating (INC) as the company did not provide information to carry out the surveillance exercise. Company has now shared the requisite information with CARE and accordingly rating has been removed from INC.

The revision in LT rating is on account of continued equity infusion from the promoters leading to improvement in capital structure and the expected improvement in the performance of the company due to launch of new models by principals. However, the company continues to have weak financial risk profile with thin profitability levels, low return on capital employed (RoCE) and weak debt coverage indicators. The rating is also constrained by working capital intensive nature of operations, cyclical nature of the automobile industry, prospects linked to performance of its principals and intense competition in the dealership market. These weaknesses are partially offset to an extent by long track record of operations of the company and experienced promoters and established presence in the auto dealership market with revenue diversification. The rating also takes note of gradual improvement in monthly sales of the company after resumption of operations post Covid-19 led lockdown.

Rating Sensitivities

Positive Factors-*Factors that could led to positive rating action/ upgrade*

- Interest coverage ratio > 1 and TDGCA <15x.

Negative Factors- *Factors that could lead to negative rating action/ downgrade*

- Loss making operations on sustained basis.
- Decrease in scale of operations below Rs 300 crore.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile with thin profitability levels but consistent equity infusion from promoters

KHTAPL total operating income (TOI) declined from Rs. 468 crore in FY19 to Rs. 407 crore in FY20 due to low demand in FIAT/JEEP as well as Ashok Leyland. This resulted in dip of PBILDT margin to 1.1% in FY20 vis-à-vis 1.51% in FY19. Lower sales coupled with higher interest costs (loan availed for construction of Jeep showroom and service centre) led to net loss of Rs. 8 crore in FY20 as against net profit of Rs. 2.8 crore in FY19. The PBILDT and PAT margins of the company remained relatively low at below 2% and 1% respectively in last 3 FYs (FY18-20). Interest coverage remains below unity and the company has to remain dependent upon equity infusion for timely debt servicing.

Despite incurring losses, company's overall gearing improved to 3.98x as on Mar'20 (PY: 4.25x) due to equity infusion of Rs. 3.8 crore by promoters during the year and reduction in WC o/s. During FY20, company reduced inventory levels of Ashok Leyland leading to lower utilization of WC limits. During H1FY21, promoters have additionally brought in unsecured loans of Rs. 4 crore which is expected to be converted into equity by March 31, 2021.

Post resumption of operations after Covid-19 led lockdown, company's sales have been gradually improving. Principals are also expected to launch new models which may work favorably for the company. Company's ability to significantly ramp up the operations thereby improving debt coverage indicators would be key to its credit profile.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Working capital intensive nature of operations:
The business of automobile dealership has inherent high working capital requirement due to high inventory holding. The entity has to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. The company's operating cycle almost remained stable around 47-49 days over the past three fiscals. The collection period and creditors period of the company stood stable at 22 days and 11 days respectively in FY20 (19 days and 11 days in FY19).

Cyclical nature of the automobile 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

Prospects linked to performance of its principals and intense competition in the dealership market
KHTAPL is an authorized dealer of Tata Motors, FIAT, Jeep and Ashok Leyland which makes the company vulnerable to the risk of change in policy by the principal with regards to the dealership. The business model of KHTAPL is in the nature of trading with thin margins. The dealers have very little leeway to enable and get incremental profits. 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. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of OEM's vehicles in the market and their ability to launch new products. Further, any reputational damage to the OEM would impact the sales of dealerships.

Key Rating Strengths
Long track record of operations of the company and experienced promoters
Mr. Kirit Morzaraia has been in the business for around nearly three decades. His son Mr. Adit Morzaraia looks after the passenger vehicle segment of TML & FIAT. They are supported by Mr. S. Raghukumar (CA), who looks after the finance function of the company. The profits earned by promoters from the real estate projects are being consistently infused as equity in the company.

Established presence in the auto dealership market with revenue diversification
K.H.T Agencies Private Limited (KHTAPL) has operational track record of about 30 years in the auto dealership business. The company initially began with dealership of commercial vehicles of SML Isuzu Limited; however, over the years, it has expanded its reach and today K.H.T is authorized dealers for Jeep, Fiat, Tata Cars and Ashok Leyland commercial vehicles in Bangalore. The contribution of PV segment to the company's revenue was around 60-63% over last 2 years.

Liquidity: Stretched
Company's cash accruals have been insufficient to meet its debt repayment obligations and has been dependent upon support from promoters. The current ratio of KHTAPL remained below unity at 0.72x as on March 31, 2020 due to high working capital borrowings. The company manages its working capital requirement through cash credit limit and inventory funding. The company's average utilisation of its fund-based working capital limits was 74% for 12 months ending October 31, 2020. KHTAPL had a modest cash balance of Rs.3.41 crore and Rs.1.07 crore as on March 31, 2020 and September 30, 2020 respectively. The company availed moratorium under RBI's COVID relief package for the period of 5 months i.e. from April, 2020 to August, 2020 and the banks extended the principal repayments.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE'S policy on Default Recognition
Financial ratios-Non Financial Sector
Liquidity analysis of Non- Financial Sector Entities

About the Company
KHT Agencies Pvt. Ltd. (KHTAPL) was incorporated in 1990 by Mr. Kirit Morzaria. Initially, it started with the dealership of commercial vehicles of SML Isuzu Limited (SMLI). After 19 years, in 2009, it entered into the dealership of passenger car segment of Tata Motors Limited (TML) & further expanded its product portfolio after getting passenger vehicle dealership of FIAT Group Automobiles India Private Limited (FIAT) in 2013. The company has 6 showrooms & 4 service centers in Bangalore. In FY18 and FY19, the company commenced Jeep and Ashok Leyland dealerships respectively in Bangalore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	468.12	406.7
PBILDT	7.06	4.47
PAT	2.86	-8.00
Overall gearing (times)	4.25	3.98
Interest coverage (times)	0.53	0.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Working Capital Limits	-	-	-	-	65.87	CARE A4
Fund-based - LT-Bank Overdraft	-	-	-	-	9.50	CARE B+; Stable
Term Loan-Long Term	-	-	-	March, 2028	35.16	CARE B+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-Working Capital Limits	ST	65.87	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (26-May-20)	-	1)CARE A4; ISSUER NOT COOPERATING* (03-Jan-19)	1)CARE A4 (11-Dec-17) 2)CARE A4 (04-Dec-17)
2.	Fund-based - LT-Bank Overdraft	LT	9.50	CARE B+; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (26-May-20)	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Jan-19)	1)CARE BB-; Stable (11-Dec-17) 2)CARE BB-; Stable (04-Dec-17)
3.	Term Loan-Long Term	LT	35.16	CARE B+; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (26-May-20)	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Jan-19)	1)CARE BB-; Stable (11-Dec-17) 2)CARE BB-; Stable (04-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	I. Capital infusion of Rs 3 crore to be ensured by March, 2020
B. Non financial covenants	I. Not stipulated

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - ST-Working Capital Limits	Simple
3.	Term Loan-Long Term	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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