



Press Release

Kataria Automobiles Private Limited (KAPL)

July 27, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	155.00	IVR BBB-/Negative Outlook (IVR Triple B Minus with Negative Outlook)	Assigned
2.	Long Term Fund Based Facility – Term Loan	5.78	IVR BBB-/Negative Outlook (IVR Triple B Minus with Negative Outlook)	Assigned
3.	Short Term Non Fund Based Facility – Bank Guarantee	30.00	IVR A3 (IVR A Three)	Assigned
Total		190.78		

Ratings

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kataria Automobiles Private Limited (KAPL) derives comfort from its experienced management team and established market position as a Maruti Suzuki India Limited (MSIL) car dealer in Gujarat. However, these rating strengths are partially offset by inherent low margin nature of auto dealership business with non-existence of bargaining power, linkage of its fortune to the performance of MSIL being its dealer and exposure to the cyclical nature of the auto industry. Further, the ratings also consider KAPL's working capital intensive nature of operations and leveraged capital structure. The outlook remains negative due to subdued economic scenarios impacting the automobile industry and expected moderation in operating performance attributable to uncertainties due to recent pandemic situations.

Key Rating Sensitivities

Upward Rating Factors

- Substantial & sustained improvement in revenue with improvement in profitability
- Improvement in the capital structure with improvement in debt protection metrics
- Improvement in working capital management with improvement in liquidity position



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Downward Rating Factors

- More than expected decline in revenue & profitability leading to deterioration in debt protection metrics
- Moderation in the capital structure with overall gearing over 4x and interest coverage ratio below 1.2x
- Deterioration in the liquidity position

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters & management team

The company is being managed by experienced directors. Collectively, the directors have a rich experience in the industry and were instrumental in development of the company. Mr. Rajendra Kataria, Managing Director of the company has over three decades of experience in transportation, four-wheeler and two-wheeler dealership to carry out the business of Automobile Dealership and transportation. Mr. Navin Jain, director has an experience of about 30 years in the industry and takes care of all the workshops of the company. Mr. Rohan Kataria, Director has an experience of about 20 years in the industry and looks after the Sales, Administration and Accounts. Having operated in industry since years now, the management has established a strong network with suppliers and customers. Beside the directors, the company has a team of experienced and capable professionals, having over a decade of experience in the segment, to look after the overall management.

Established market position in distributorship in Gujarat

The company is the second largest MSIL distribution group in the country. The company has a total of 40 showrooms in various cities of Gujarat. The Company derives its 99.59% (FY19) & 99.64% (FY18) revenue from sale of Maruti Suzuki vehicles. The company has been awarded Champion of Champions award in 2018. The company has also won ETAuto India's Top Deal for Passenger Vehicles award in 2019.

Key Rating Weaknesses

Linked to the fortunes of MSIL and inherent risk from external factors

KAPL being an authorized dealer of MSIL is vulnerable to the risk of change in policy by the principal with regards to the dealership and the product. Accordingly, the financial risk profile



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of the company has a high degree of correlation with the performance of MSIL's vehicles in the market and their ability to launch new products as per the market dynamics. Further, KAPL, like other players in the automobile industry, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as revision of tax rates, fluctuation in prices of fuel, initiative taken by government to reduce carbon print like BS-VI emission norms, shifting investment to electric vehicles, change in customer demands etc.

Inherent low margin business with non-existence of bargaining power and pricing constraints

The company operates on a fixed margin basis wherein prices and margins are fixed by the principal. Product pricing is level marked by the principal companies at the time of dispatch, thereby restricting the company to earn incremental margins. KAPL also lacks bargaining power due to its dependence on such large principal that set policies, targets and link incentive based income to satisfactory compliance of such policies. Though the trading nature of KAPL's operation leads to thin operating margins, gradual improvement has been witnessed in the EBITDA margin from 2.98% in FY18 to 3.93% in FY20 (Prov.).

Working capital intensive nature of operations

Inventory management is critical for KAPL as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. Of the inventory, around 10% - 20% is backed by orders from the customers thus minimizing piling of stock. Instances of build-up of inventory normally take place during the year end in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 40 days in FY19 (~28 days in FY18) and about 45 days in FY20 (Prov.) Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up some time, the average collection period of the company remained less than 10 days. On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high.

Leveraged capital structure

The company has a leveraged capital structure marked by its overall gearing ratio at 3.82x as on March 31,2020 (Prov.) [5.25x as on March 31,2019] and TOL/TNW at 4.23x as on March 31,2020 (Prov.) [5.53x as on March 31,2019].



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Cyclical nature of the auto industry

The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the 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.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Stretched

The liquidity position of the company appears to be stretched in the near to medium term due to high working capital intensity of its business. However, the company has earned a gross cash accrual of Rs.31.96 crore in FY20 (Prov.) and is expected to earn gross cash accruals in the range of ~Rs.31-34 crore as compared to its debt obligations in the range of ~Rs.18-23 crore during in FY21-22.

About the Company

Kataria Automobiles Pvt Ltd (KAPL), an authorized dealer of Maruti Suzuki India Limited (MSIL) was formed by Kataria Group in the year 1990 under the guidance of Mr. Rajendra Kataria. KAPL, until 1995 was engaged in transportation, logistics, trading and other miscellaneous activities and gradually became an authorised dealer of MSIL. The group has 40 showrooms and 41 workshops of Maruti Suzuki across Gujarat.



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Financials: Standalone

For the year ended/ As On	31-03-2019	(Rs. crore) 31-03-2020
	(Audited)	(Provisionals)
Total Operating Income	2084.29	1997.77
EBITDA	73.98	78.59
PAT	9.63	11.26
Total Debt	549.53	467.53
Tangible Net-worth	104.64	115.91
Ratios		
EBITDA Margin (%)	3.55	3.93
PAT Margin (%)	0.46	0.56
Overall Gearing Ratio (x)	5.25	3.82

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018- 19	Date(s) & Rating(s) assigned in 2017- 18
1.	Cash Credit	Long Term	155.00	IVR BBB- /Negative Outlook	--	--	--
2.	Term Loan	Long Term	5.78*	IVR BBB- /Negative Outlook	--	--	--
3.	Bank Guarantee	Short Term	30.00	IVR A3	--	--	--

*o/s as on March 31, 2020

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/Outlook
Long Term Facility – Fund Based - Cash Credit	-	-	Revolving	155.00	IVR BBB-/Negative Outlook
Long Term Facility – Fund Based - Term Loan	-	-	October, 2021	5.78	IVR BBB-/Negative Outlook
Short Term Facility – Non Fund Based – Bank Guarantee	-	-	12 Months	30.00	IVR A3