

January 10, 2017

Kataria Automobiles Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	145.84	[ICRA]BBB- (Stable) Reaffirmed
Non-Fund Based Limits	30.00	[ICRA]A3 Reaffirmed
Total	175.84	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced as ICRA triple B minus)¹ to the Rs. 10.84 crore term loans and Rs. 135.00 crore cash credit facilities of Kataria Automobiles Private Limited (KAPL). ICRA has also reaffirmed the short term rating of [ICRA]A3 (pronounced as ICRA A three) to the Rs. 30.00 crore² non fund based bank facilities of KAPL. The outlook on the long term rating is 'Stable'.

Rationale

The reaffirmation of ratings take into account the healthy business growth in the past three years owing to the growth in the passenger vehicle segment and the positive response to MSIL vehicles which continues to remain the market leader in the passenger car segment in India. The ratings continue to take comfort from KAPL's long standing relationship with its principal, being the first MSIL dealer in Gujarat, extensive experience of the promoters in auto dealership business with strong market position in Gujarat by virtue of widespread presence in the state. The ratings also take into account the favourable prospects of MSIL, with positive response towards its existing models as well as with its planned line up of new car launches in the near term.

The ratings however continue to remain constrained by the high competitive pressure faced by the company from a number of established dealers of MSIL and other OEM manufacturers as well as new entrants in the dealership business leading to pressure to pass on price discounts to customers which limits profitability. The ratings also factor in the susceptibility of operations to slowdown in the passenger car market in India and the highly leveraged capital structure due to high working capital requirements and debt funded capex carried out during the last few fiscals as well as the modest debt coverage indicators. The ratings also take into account the significant advances extended to its group companies; any delay in recovering or increase in the quantum of these advances may adversely impact the credit profile

Going forward, the ability of the company to improve its profitability amidst a highly competitive environment, improve its capital structure and coverage indicators and efficiently manage its working capital requirements would remain the key rating sensitivity.

Key rating drivers

Credit Strengths

- Authorised dealer of Maruti Suzuki India Limited (MSIL), the market leader in the passenger car segment in India;
- Long track record of operations being the first MSIL dealer in Gujarat and strong market position by virtue of widespread presence in the state;
- Healthy scaling up of operations in the past three years aided by positive response to MSIL vehicles and growth in passenger vehicle segment;

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

- Favourable prospects for MSIL, with positive response towards its existing models as well as with its planned line up of new car launches in the near term.

Credit Weakness

- Strong competitive intensity with a large number of existing as well as new dealerships in the region has led to pressure on profit margins;
- Vulnerability of revenue growth to cyclicalities in the domestic auto sector
- Highly leveraged capital structure, due to debt funded capex and high working capital requirements and modest debt coverage indicators
- Significant advances extended to its group companies; any delay in recovering or increase in the quantum of these advances may adversely impact the credit profile

Description of key rating drivers highlighted above:

The company has reported a healthy growth in its operating income on account of healthy demand for MSIL vehicles as well as improved realizations. The operating margin, however, remained weak as typical in any dealership business and witnessed a decline in the past two fiscals primarily on account of high discounts offered to garner market share in an increasingly competitive business environment. Total debt for the company has remained high over the past few years owing to the debt funded capex undertaken for setting up of new showrooms coupled with working capital intensive nature of operations.

Going forward, the prospects for MSIL remain favourable owing to the healthy demand for its popular models as well as planned line up of new launches in the near term. Also, KAPL has carried out significant capex in the past three fiscals to set up various showrooms (including the premium NEXA showrooms) and servicing facilities in Gujarat as well as Bangalore, which is expected to aid the company in scaling up its operations, going forward. The revenue growth would however continue to remain vulnerable to the cyclicalities in the domestic auto sector.

Analytical approach:

Corporate Credit Rating –A Note on Methodology
Rating Methodology for Automobile Dealerships

About the Company:

Incorporated in 1990, Kataria Automobiles Private Limited (KAPL) is the flagship company of Kataria Group. It is involved in the automobile dealership of passenger vehicles of Maruti Suzuki India Limited (MSIL). It has its presence across various cities of Gujarat, such as Ahmedabad, Baroda, Surat, Vapi, Daman, Rajkot, Silvassa, Valsad etc., through sixteen showrooms, eight true value outlets, seven e-outlets and twenty workshops/servicing facilities. Recently, the company has also expanded its reach to Bangalore by opening three showrooms in the city.

Other group companies include Kataria Motors Private Limited (KMPL), Kataria Cars Private Limited (KCPL), K Log Global Private Limited (KLGPL) and Kataria Infrastructure Private Limited (KIPL). KMPL is engaged in dealership of TVS 2/3 wheelers and Bharat Benz (Daimler Trucks). KMPL is engaged in dealership of Porsche Cars. KLGPL provides logistic services for power, steel, oil & gas infrastructure projects. KIPL is involved in construction business and is engaged in construction, maintenance of various showrooms and workshops of KIL.

KAPL recorded a net profit of Rs. 7.22 crore on an operating income of Rs. 1643.04 crore for the year ending March 31, 2016 (provisional results).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014	
				January 2017	August 2015	March 2015	June 2013	
1	Cash Credit	Long Term	135.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	
2	Term Loans	Long Term	10.84	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	
3	Bank Guarantee	Short Term	30.00	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	135.00	[ICRA]BBB- (Stable)
Term Loans	10.84	[ICRA]BBB- (Stable)
Bank Guarantee	30.00	[ICRA]A3

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