Ace Kudale Corporation Limited

May 25, 2023

Ratings

Instrument Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	43.95*	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	6.05	IVR A4 (IVR A Four)	Assigned	Simple
Total	**50.00**	**Rupees Fifty Crore Only**		

**Includes proposed limit of Rs.19.12 crore.*

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has assigned long-term rating of IVR B+ with a stable outlook and short-term rating of IVR A4 for the bank loan facilities of Ace Kudale Corporation Limited (AKCL).

The rating draws comfort from the established management and long track record of association with Maruti Suzuki India Limited (MSIL) and improvement in total operating income. However, these strengths are partially offset by average debt protection metrics and financial risk profile, linked to the fortunes of Maruti Suzuki India Limited (MSIL)/Suzuki Motors India Limited (SMIL) and inherent risk from external factors, thin profitability margins inherent to dealership business, working capital intensive nature of operations, intense competition and regional concentration of sales, cyclical nature of automobile industry.

IVR has principally relied on the standalone audited financial results of AKCL up to 31 March 2022, 11MFY2023 provisional results and projected financials for FY2023, FY2024 and FY2025, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in scale of operations and EBIDTA Margins.
- Improvement in debt protection metrics.
- Sustenance of overall gearing ratio.

Downward Factors

- Significant reduction in scale of operations and profitability margins.
- Deterioration in debt protection metrics and overall gearing.

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Established management and long track record of association with Maruti Suzuki India Limited (MSIL):

The company commenced its operations in 2007 and has a successful track record of more than three decades in the existing line of business. Overall activities of AKCL are managed by Mr. Deepak Laxmanrao Kudale being the Chairman cum Managing Director. He has experience of more than 30 years in the automobile dealership business. He is ably supported by other directors, who have effective experience in the automobile dealership business as well as supported by qualified and well experienced management team.

Improvement in total operating income:

The total operating income (TOI) improved by ~3.89% to Rs. 179.15 crore in FY2022 from Rs. 172.56 crore in FY2021 on account of increased demand of cars, accessories and spare parts sale and workshop revenue. Most of the revenue is generated from the sales of automobiles which accounted for around 60% of its total income in FY2022 while the balance revenue was generated through sale of used car, services, sale of spare parts, and workshop revenue.

B. Key Rating Weaknesses

Average debt protection metrics and financial risk profile:

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) constant to 0.12x in FY2022, and the debt service coverage ratio (DSCR) marginally increased to 1.01x in FY2022 as compared to 0.65x in FY2021. The Adjusted tangible net worth improved to Rs. (1.12) crore in FY2022 from Rs. (1.13) crore in FY2021. Overall analysed gearing remained constant to (51.55) x in FY2022 from (49.16)x in FY2021.

Linked to the fortunes of Maruti Suzuki India Limited (MSIL)/Suzuki Motors India Limited (SMIL) and inherent risk from external factors:

AKCL being an authorized dealer of MSIL and SMIL is vulnerable to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of MSIL's and SMIL's vehicles in the market and their ability to launch new products as per the market dynamics. Further, AKCL, like other players in the automobile, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as introduction of new tax or increase in tax, fluctuation in prices of fuel, initiative taken by government to reduce carbon print like BS VI emission norms, shifting investment focus from traditional to electric vehicles, change in customer demands etc.

Thin profitability margins inherent to dealership business:

The dealership business is characterized by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. EBIDTA margins decreased to 0.37% in FY2022 from 0.51% in FY2020 owing to higher absorption of fixed cost. PAT margins increased to 0.11% in FY2022 from (-1.70) % in FY2021.

Working capital intensive nature of operations:

Inventory management is crucial for AKCL as it needs to maintain an optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage. The operations of AKCL are working capital intensive given the need to maintain inventory. However, with the short supply of vehicles from the principal due to the ongoing semi-conductor chip shortage, the inventory levels have come down in FY2022 leading to reduced working capital limit utilization. The same is expected to normalize with the increase in consumer demand for owning and maintaining personal vehicles.

Intense competition and regional concentration of sales:

The automotive dealership industry is highly competitive with stiff competition from other dealerships. Intense competition from the dealers of other OEMs also exerts pressure on AKCL's sales volumes and margins. Moreover, the incremental investment requirement to regularly upgrade the dealership outlets, in line with the principal's marketing strategy, keeps the cash flows of the dealerships under pressure.

Cyclical nature of 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.

Analytical Approach: For arriving at the ratings, IVR has analysed AKCL's credit profile by considering standalone financial statements of the firm.

Applicable Criteria :

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

The company has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company's liquidity position is supported by cash and bank balances of Rs. 2.41 crore as on March 31, 2022. The Company generated net cash accruals of Rs. 1.61 crore for FY2022 while its maturing debt obligations were Rs. 1.55 crore for the same period. The cash accruals of the Company are estimated to remain in the range of around Rs. 2.14 crore to Rs.4.87 crore during FY 2023-25 against repayment obligation in the range of Rs.1.82 to 0.71 crore during the projected years. The adjusted current ratio stood at 1.76x as on March 31st, 2022.

About the company

Kudale Group is in the service industry in Pune since 1932. Over the years, the company has developed relationship with customers which have lasted over four generations. Authorized dealership of the Maruti Suzuki was started in 2009 in Manjari area of Pune City and in the first year the company bagged the regional award for the lowest cost of body repairs. Later in 2012, one more branch was opened in Bhosari area of Pune City.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	172.26	179.15
EBITDA	0.89	0.66
PAT	-3.01	0.21
Total Debt	55.45	57.80
Tangible Net worth*	-1.13	-1.12
EBITDA Margin (%)	0.51	0.37
PAT Margin (%)	-1.70	0.11
Overall Gearing Ratio (x)	-49.16	-51.55
Interest Coverage Ratio (x)	0.12	-0.12

as per Infomerics standards

Status of non-cooperation with previous CRA : None

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	43.95*	IVR B+/Stable (Assigned)	-	-	-
2.	Non-Fund Based	Short Term	6.05	IVR A4 (Assigned)	-	-	-

**Includes proposed limit of Rs.19.12 crore.*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).
Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.
Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.
Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	23-04-2033	8.31	IVR B+/Stable
Term Loan 2	-	-	05-04-2026	6.86	IVR B+/Stable
Term Loan 3	-	-	26-07-2032	2.19	IVR B+/Stable
Term Loan 4	-	-	01-11-2032	0.88	IVR B+/Stable
Term Loan (Proposed)	-	-	-	19.12	IVR B+/Stable
Overdraft	-	-	-	6.59	IVR B+/Stable
Inventory Funding	-	-	-	5.80	IVR A4
Trade Finance	-	-	-	0.25	IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Ace-Kudale-may23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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