

## Press Release

### Counto Automobiles Pvt Ltd (CAPL)

July 24, 2018

## Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities	7.56 (including proposed limits of Rs.0.56 crore)	IVR B+/ Stable Outlook (IVR Single B Plus with Stable Outlook)	Assigned
2	Long Term Debt- Term Loan	2.44	IVR B+/ Stable Outlook (IVR Single B Plus with Stable Outlook)	Assigned

**Details of Facilities are in Annexure 1**

## Detailed Rationale

The ratings derive strength from the experienced promoter, association of CAPL with Hyundai Motors India Ltd (HMIL) and growth in scale of operations of the company. The ratings, however, are tempered by thin profitability margins, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, fortunes being linked to HMIL and geographical concentration of revenues.

Growth in scale of operation and profitability, capital structure and efficient management of working capital are the key rating sensitivities.

## List of Key Rating Drivers

- *Experienced Promoter*
- *Association with Hyundai Motors India Ltd (HMIL)*
- *Growth in scale of operation*
- *Thin Profitability Margins*
- *Leveraged capital structure and weak debt coverage indicators*
- *Working capital intensive nature of operation*
- *Fortunes linked to HMIL*

➤ *Geographical concentration of revenues*

## **Detailed Description of Key Rating Drivers**

### **Key Rating Strengths**

#### ***Experienced Promoter***

Mr. Nanda S.N. Counto, the first generation promoter is the Chairman of CAPL. CAPL is part of the Alcon Group, which is diversified and has a presence in Cement, Hotels, Construction, Vehicle Dealership, Logistics and other segments. Mr. Nanda S.N. Counto has an experience spanning more than four decades in various industries and has gradually ventured into the setting up of various business verticals, which are a part of the group as on date. He is ably supported by his son Mr. Aakash Khaunte and Mr. Gaurav Khaunte (Aakash Khaunte's cousin) who also have an industry experience in various sectors.

#### ***Association with Hyundai Motors India Ltd (HMIL)***

CAPL has an exclusive dealership for wide range of HMIL products in the passenger vehicle segment. HMIL is an established player and amongst the market leader in the passenger vehicle segment in India. The dealership is based on performance of the company and accomplishment of targets during the period.

#### ***Growth in scale of operation***

CAPL's revenue from operations consists of sale of cars (a major contributing segment with 91% share in the total revenue during FY18) and a varied portfolio of allied services (includes servicing of vehicles, sale of spare parts and accessories). In FY18, CAPL's revenue from sale of vehicles increased slightly to Rs.117.33 crore as compared to Rs.109.18 crore in FY17 (Rs.78.68 crore in FY16), majorly on account of higher demand. Also, during the same period, the incentives received by the company from Hyundai increased to Rs.4.40 crore as on March 31, FY18 as compared to Rs.2.46 crore as on March 31, 2017.

### **Key Rating Weaknesses**

#### ***Thin Profitability Margins***

CAPL's EBITDA margin continued to remain thin at 2.89% & 2.27% in FY17 & FY18 respectively, on account of dealership nature of business wherein the gross profitability is

guided by HMIL (since HMIL fixes the ex-showroom price as well the ex-factory price). Further, the margins have remained volatile and is generally on a declining trend on account of increasing competition in the region. Also, the profitability was under pressure on account of commissioning of a new service centre and bodyshop, operations of which had not stabilised during FY18.

### ***Leveraged capital structure and weak debt coverage indicators***

CAPL has a leveraged capital structure due to higher dependence on debt (mainly working capital borrowing limit and term loan) to support its scale of operation, marked by a very high overall gearing ratio. The networth of the company stood negative till FY17. Furthermore, the debt coverage indicators are also weak marked by a total debt to GCA multiple of 19.97x.

### ***Working capital intensive nature of operation***

CAPL's operations are working capital intensive in nature (with around 68% utilization of fund based facilities during twelve months ending May 2018) as funds are being blocked in inventory, while non-fund based limits are also used. CAPL maintains inventory level of around a month as the company stocks different models and spares in the showrooms in order to ensure adequate visibility and availability. CAPL has minimal receivables and creditors.

### ***Fortunes linked to HMIL***

Being an authorized dealer of HMIL, CAPL's business risk profile is directly linked to timely operational support from HMIL in terms of delivery of vehicles, new products launches and the marketing effort undertaken by HMIL to promote the sale of its cars. HMIL offers a wide range of cars across different segments. Generally, the gross margins set by Hyundai for the dealers are in the range of 3-5%, which the company has been consistent in achieving.

### ***Geographical concentration of revenues***

The company acts as authorized dealers for HMIL and carries out its operation from its showrooms and bodyshop located in Goa. The operation of the company is geographically concentrated as it derives revenues only from the above state which makes it vulnerable to dynamics of the state.

## Analytical Approach & Applicable criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition & Post-Default Curing Period

## About the Company

Counto Automobiles Private Ltd (CAPL) commenced operation in 2005 by commencing with the dealership of Hyundai vehicles. The entity is part of the Alcon Group, which is diversified and has a presence in Cement, Hotels, Construction, Vehicle Dealership, Logistics and other segments. CAPL is an authorized dealer for Hyundai Motors India Ltd (HMIL), for sale of cars (accounts for 90% of total revenue in FY18) in the Goa region. It also sells spare parts (6% of total revenues in FY18); and the rest of the revenue comes from servicing of vehicles along with miscellaneous income. The company has 2 showrooms located at Porvorim and Margao in Goa. Further, the company also has commissioned a service centre and bodyshop in June 2018. HMIL has set a gross margin for its vehicles of around 3-5% depending on the model sold. The company's top selling models are Creta, i10 Grand, i20 and Verna. Further the company is also eligible for incentives from dealers based on various factors like volumes sold, quality aspects, discount on particular models etc.

## Financials

(Rs. crores)

For the year ended / As On	31-03-2017 (Audited)	31-03-2018 (Provisional)
Total Operating Income	124.77	136.78
EBITDA	3.60	3.11
PAT	0.68	0.71
Total Debt	20.17	23.36
Tangible Networth	-0.08	0.62
EBITDA Margin (%)	2.89	2.27
PAT Margin (%)	0.55	0.52
Overall Gearing Ratio (x)	Neg	37.66

Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not Applicable

## Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Debt-Term Loan	Long Term	2.44	IVR B+/Stable Outlook	--	--	--
2.	Long Term Fund Based Facilities (incl. proposed limit of Rs.0.56 crore)	Long Term	7.56	IVR B+/Stable Outlook			

**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](http://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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt-Term Loan	NA	NA	November 2021	2.44	IVR B+/ Stable Outlook
Long Term Fund based facilities-Cash Credit	NA	NA	N.A	7.56 (including proposed limit of Rs.0.56)	IVR B+/ Stable Outlook