

Press Release**Counto Metals & Mining Company Ltd (CMMCL)****July 24, 2018****Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities	4.73 (including proposed limit of Rs.0.88 crore)	IVR B/ Stable Outlook (IVR Single B with Stable Outlook)	Assigned
2	Long Term Debt- Term Loan	5.27	IVR B/ Stable Outlook (IVR Single B with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1**Detailed Rationale**

The ratings derive strength from the experienced promoter, association with Mercedes Benz and growth in scale of operation.

The ratings, however, are tempered by thin EBITDA margin with cash losses, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, fortunes being linked to Mercedes Benz 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 Mercedes Benz*
- *Growth in scale of operation*
- *Thin EBITDA Margin with cash losses*
- *Leveraged capital structure and weak debt coverage indicators*
- *Working capital intensive nature of operation*

- *Fortunes linked to Mercedes Benz*
- *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 & Managing Director of the company. He 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, Mr. Gaurav Khaunte (Aakash Khaunte's cousin), Mr. Sachin Honaver, CEO, who has completed his BE in Computers and Mr. Michael Viegas, CFO who is a CA and CWA and. They also have an industry experience in various sectors.

Association with Mercedes Benz

CMMCL has an exclusive dealership for wide range of Mercedes Benz products in the passenger vehicle segment. Mercedes is an established player and amongst the market leaders in the passenger vehicle segment in India. As per the management, the principal cannot enter into any kind of arrangement with any other PV player in the region. The dealership is based on performance of the company and accomplishment of targets during the period.

Growth in scale of operation

CMMCL's revenue from operations consists of sale of cars (a major contributing segment with 71% share in the total revenue during FY18) and a varied portfolio of allied services (includes servicing of vehicles, sale of spare parts and accessories). Similarly, CMMCL's total revenues also grew from Rs.46.07 crore in FY17 to Rs.73.89 crore in FY18 (Rs.51.64 crore in FY16) primarily on account of increase in sale of vehicles to Rs.46.89 crore in FY18 from Rs.30.76 crore in FY17, on account of higher demand. Also, the jetty income and income from sale of accessories and spare parts increased slightly leading to the overall growth in operations.

Key Rating Weaknesses

Thin EBITDA Margin with Cash Losses

Similarly, CMMCL's operating margin is also thin with operating profitability of 1.87% and 2.21% in FY17 and FY18 respectively, on account of dealership nature of business wherein the gross profitability is guided by Mercedes Benz (since Mercedes Benz fixes the ex-showroom price as well the ex-factory price). Further, on account of high operating expenses related to both the divisions coupled with high finance cost, the company has been reporting cash loss since the past two years.

Leveraged capital structure and weak debt coverage indicators

CMMCL has a leveraged capital structure due to higher dependence on debt (mainly working capital borrowing limit, term loan and unsecured loan from promoters) to support its scale of operation, marked by an overall gearing of 1.42x as on March 31, 2018 as compared to 2.05x as on March 31, 2017. The overall gearing has improved on account of lower outstanding amount of the working capital facilities as on the balance sheet date. Furthermore, the debt coverage indicators are also weak marked by a negative total debt to GCA multiple and interest coverage ratio which is below unity.

Working capital intensive nature of operation

CMMCL's operations are working capital intensive in nature (with around 86% utilization in case of CMMCL during twelve months ending May 2018) as funds are being blocked in inventory and the company generally deals in cash with Mercedes Benz. Due to debit of interest at the end of the month, the account was overdrawn for 1-2 days for some months. CMMCL has an inventory holding period of around 60 days, as the company stocks different models and spares in the showrooms in order to ensure adequate visibility and availability. CMMCL has an average receivable period of around 16 days which is offset by the credit period offered to the company by its suppliers.

Fortunes linked to Mercedes Benz

Being an authorized dealer of Mercedes Benz, CMMCL's business risk profile is directly linked to timely operational support from Mercedes Benz in terms of delivery of vehicles, new products launches and the marketing effort undertaken by Mercedes Benz to promote

the sale of its cars. Mercedes Benz offers a wide range of cars across different segments. Generally, the gross margins set by Mercedes Benz are in the range of 7.75-8.75%.

Geographical concentration of revenues

The company acts as an authorized dealer for Mercedes Benz and carries out its operation from its showroom and bodyshop located in Goa. The operation of the company is geographically concentrated as it derives revenues only from the above districts which makes it vulnerable to dynamics of these districts, although the company derives some proportion of income from operating the jetty owned by it, which is again located in Goa.

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 Metals & Mining Company Ltd (CMMCL) commenced operation in 2009 by way of launching one jetty, followed by taking over the dealership of Mercedes Benz from Millenium Motors in 2010. Subsequently, it launched its second jetty in 2015. 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.

CMMCL is engaged in the dealership of Mercedes Benz Vehicles with vehicle sales accounting for 71% of the total revenues. It has full fledged sale, service and bodyshop facility located Goa. Further, the company is also engaged in operating a full fledged jetty at Surla Kottambi in Goa, which is mainly used for the transportation of Gypsum, Bentonite, Slag etc. The services of the jetty are wholly used by third parties, and CMMCL gets hire charges for the same. The company has separate jetties for the loading and unloading of Cargo. In case of the dealership business, Mercedes has a set a gross margin of around between 7.75%-8.75%. Here the top models for the company are GLA, GLE, GLC, CLA etc. 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	46.07	73.89
EBITDA	0.86	1.63
PAT	-1.18	-0.98
Total Debt	19.62	26.97
Tangible Network	9.59	8.78
EBITDA Margin (%)	1.87	2.21
PAT Margin (%)	Neg	Neg
Overall Gearing Ratio (x)	2.05	3.07

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	5.27	IVR B/ Stable Outlook	--	--	--
2.	Long Term Fund Based Facilities (incl. proposed limit of Rs.0.88crore)	Long Term	4.73	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.

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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	5.27	IVR B/ Stable Outlook
Long Term Fund based facilities-Cash Credit	NA	NA	N.A	4.73 (including proposed limit of Rs.0.88)	IVR B/ Stable Outlook