

Rating Advisory

July 13, 2020 | Mumbai

Competent Automobiles Company Limited

Advisory as on July 13, 2020

This rating advisory is provided in relation to the rating of Competent Automobiles Company Limited

The key rating sensitivity factors for the rating include:

- Capital expenditure (capex) and its funding
- Extent of investment in associate companies
- Revenue and operating margin
- Working capital management
- Performance of the principal

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Competent Automobiles Company Limited (CACL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If CACL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt.Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71dt.June 30,2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the company

Incorporated in 1985, CACL went public in 1996. Listed on the Bombay Stock Exchange, the company is an authorised dealer for MSIL in Delhi, Haryana, and HP. Mr Raj Chopra is the promoter.

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Rating Rationale

May 06, 2019 | Mumbai

Competent Automobiles Company Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.166 Crore (Enhanced from Rs.146 Crore)
Long Term Rating	CRISIL BBB+/Positive (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of Competent Automobiles Company Limited (CACL) at 'CRISIL BBB+/Positive/CRISIL A2'.

The ratings continue to reflect the company's established position in the automobile dealership market in Delhi, Haryana, and Himachal Pradesh; and above-average financial risk profile. These strengths are partially offset by exposure to risks associated with principal concentration, and intense competition.

Key Rating Drivers & Detailed Description

Strengths:

Established market position in Delhi, Haryana, and Himachal Pradesh:

Strong market position - supported by over 30 years of association with Maruti Suzuki India Ltd (MSIL; rated 'CRISIL AAA/Stable/CRISIL A1+') - supports business risk profile. The company currently has 20 showrooms, 4 E-outlets, and 11 workshops; and has consistently received approvals from the principal for opening showrooms in New Delhi and Himachal Pradesh.

Awards from MSIL, including for highest sales and customer satisfaction, ensure quality of services offered. Revenue registered a compound annual growth rate of 12% over the three fiscals through 2018, to Rs 1274.2 crore. However, for the nine months ended fiscal 2019, revenue was Rs 956.3 crore against Rs 974.8 crore in the corresponding quarter of fiscal 2018. Decline was on account of slowdown in demand, resulting in lower sales volume.

* **Above-average financial risk profile:** Network was large at Rs 195.44 crore as on March 31, 2018, while total outside liabilities to adjusted network (TOLTNW) ratio was low at 0.5 time because of sustained working capital cycle and healthy cash accrual. Gross current assets were 40-50 days in the three years ended March 31, 2018. With efficient working capital cycle and surplus cash from sale of land, financial risk profile is expected to remain stable over the medium term.

Weakness:

* **Exposure to risks associated with principal concentration, and intense competition:** Exclusive dealership for

MSIL cars exposes the company to risks associated with decline in principal's revenue and profitability. Furthermore, the agreement with MSIL does not guarantee CACL exclusivity in Delhi, resulting in competition from around 12 other MSIL dealers; apart from dealers of other original equipment manufacturers (OEMs).

Amid increasing pricing pressure, automotive OEMs have cut costs, consequently reducing commission to dealers, as reflected in operating margin of 2.8% over the four fiscals through 2018. The OEMs also encourage more dealerships (thereby increasing competition) to improve market penetration and sales.

Business risk profile is, however, expected to benefit over the medium term from the company's plans to add more showrooms and workshops in Delhi, Haryana, and Himachal Pradesh. This will entail investment of around Rs 20 crore each in fiscals 2020 and 2021, to be primarily funded through sales proceeds from the Goa land.

Liquidity

Bank limit utilisation was 34.54% for the 12 months ended February 2019. Utilisation is expected to remain low on account small working capital requirement. Cash accrual is expected to be Rs 25-30 crore per annum in fiscals 2020 and 2021 against nominal debt repayment. Liquidity is further comforted by sales proceeds from the Goa land that have been primarily utilised to expand existing business. Expected net cash accrual over the medium term will be sufficient to fund majority of incremental working capital requirement and debt obligation, leading to limited dependence on bank borrowings.

Outlook: Positive

CRISIL believes CACL will continue to benefit over the medium term from its established market position and healthy relationship with MSIL. The ratings may be upgraded if improvement in revenue strengthens key credit metrics. The outlook may be revised to 'Stable' if divestment of funds towards non-core assets, stretch in working capital cycle, or decline in operating margin weakens TOLTNW ratio or liquidity.

About the Company

Incorporated in 1985, CACL went public in 1996 and is promoted by Mr Raj Chopra. The company is an authorised dealer for MSIL in Delhi, Haryana, and Himachal Pradesh. It is listed on the Bombay Stock Exchange.

Key Financial Indicators

As on/for the period ended March 31	Unit	2018	2017
Operating income	Rs crore	1,275.02	1,242.64
Reported profit after tax	Rs crore	81.57	11.34
PAT margins	%	6.44	0.93
Adjusted debt/adjusted networkth	Times	0.36	0.50
Interest coverage	Times	4.11	3.55

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	2.5	CRISIL A2
NA	Cash Credit	NA	NA	NA	46.3	CRISIL BBB+/Positive
NA	Inventory Funding Facility	NA	NA	NA	117	CRISIL BBB+/Positive
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	0.2	CRISIL BBB+/Positive

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	163.50	CRISIL BBB+/Positive			03-07-18	CRISIL BBB+/Positive	07-03-17	CRISIL BBB+/Stable	04-04-16	CRISIL BBB/Stable	CRISIL BBB/Stable
						29-06-18	CRISIL BBB+/Positive					
Non Fund-based Bank Facilities	LT/ST	2.50	CRISIL A2			03-07-18	CRISIL A2	07-03-17	CRISIL A2	04-04-16	CRISIL A3+	CRISIL A3+
						29-06-18	CRISIL A2					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2.5	CRISIL A2	Bank Guarantee	2.5	CRISIL A2
Cash Credit	46.3	CRISIL BBB+/Positive	Cash Credit	40.5	CRISIL BBB+/Positive
Inventory Funding Facility	117	CRISIL BBB+/Positive	Fund-Based Facilities	30	CRISIL BBB+/Positive
Proposed Fund-Based Bank Limits	.2	CRISIL BBB+/Positive	Inventory Funding Facility	65.2	CRISIL BBB+/Positive
--	0	--	Proposed Fund-Based Bank Limits	7	CRISIL BBB+/Positive

--	0	--	Standby Line of Credit	.8	CRISIL BBB+/Positive
Total	166	--	Total	146	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Criteria for rating trading companies](#)

[Rating Criteria for Retailing Industry](#)

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