November 30, 2022

V.S.T. Motors Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – CC	65.00	65.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of V.S.T. Motors Private Limited (VSTM), its subsidiary V.S.T. And Sons Private Limited (VST&S), and Chennai Auto Agency Private Limited (CAAPL) (henceforth known as the Group/VST Group) as all the three entities have common promoters/management and operate in the same business of automobile dealership and affiliated services.

The rating upgrade factors in the favourable demand prospects and expected improvement in the Group's revenues, accruals and coverage metrics on account of the same going forward. The Group reported revenues of Rs. 965.9 crore in FY2022 (YoY growth of 25.9%) and Rs. 698.4 crore in H1 FY2023 (YoY growth of 58.5%), aided by demand recovery in both Commercial Vehicle (CV) and Passenger Vehicle (PV) segments. The improved revenues have resulted in improvement in accruals as well, with the Group having cumulative net cash accruals of close to Rs. 50.0 crore for FY2022 and H1 FY2023. The revenues and accruals are likely to improve further going forward, given the healthy demand environment. The improvement in accruals along with effective working capital management and modest capex have resulted in improvement in coverage metrics. The group's adjusted net debt/OPBDITA improved to 1.2 times as on September 30, 2022 (as per provisional financials) against 2.4 times as on March 31, 2021. In the absence of significant debt-funded capex plans, the coverage metrics are likely to improve going forward. The rating also draws comfort from the Group's adequate liquidity with free cash and bank balances of Rs. 21.9 crore as on September 30, 2022 and undrawn working capital lines of Rs 140.9 crore as on September 30, 2022.

The rating also draws comfort from the established presence of VST Group in automobile dealership business and its strong relationship with several key OEMs including Tata Motors Limited (TML), Kia India Private Limited (Kia India) and Mercedes Benz India Pvt Ltd (Mercedes Benz) to name a few. Further, the Group has steady rental income (Rs. 1.1 crore per month) from its commercial real estate asset and this would support its cash flows, especially during downturns. However, the Group has thin margins, akin to other automobile dealerships and witnesses competition from dealerships of the same principal as well as competing OEMs. Further, its revenues remain susceptible to any slowdown in the CV industry, given that 61% of the Group's revenues were derived from the CV segment in H1 FY2023.

Key rating drivers and their description

Credit strengths

Established presence of VST Group in automobile dealership business; strong relationships with several key OEMs – The VST Group has been present for more than six decades in the automobile dealership space in Tamil Nadu. The Group has dealerships of various reputed auto OEMs, namely TML, Kia India, Jaguar Land Rover India Limited (JLR), Mercedes Benz and Porsche India Pvt Ltd (Porsche) currently. Further, it has been periodically expanding the dealership portfolio over the years, the most recent one being Porsche. The promoters have infused unsecured loans in the past for facilitating expansions, as and when required.

Healthy recovery in revenues and accruals in FY2022 and H1 FY2023 – The Group has witnessed healthy recovery in revenues in FY2022 and H1 FY2023 with demand recovery in both CV and PV segments. It reported consolidated revenues of Rs. 965.9 crore in FY2022 (as per provisional financials) against Rs. 767.5 crore in FY2021, a YoY growth of 25.9%, and Rs. 698.4 crore in H1 FY2023 (as per provisional financials) against Rs. 440.7 crore in H1 FY2022, a YoY growth of 58.5%. The improved revenues have resulted in improvement in accruals as well, with cumulative net cash accruals of close to Rs. 50.0 crore for FY2022 and H1 FY2023. The revenues and accruals are likely to improve going forward, given the healthy demand environment.

Rental income from commercial real estate supports profits– VSTM owns a commercial building in Mount Road, Chennai, where the Kia and JLR showrooms are in the ground floor and the remaining floors have been rented out as office space to Pfizer. The lease agreement is for nine years from October 2019, renewable for a period of three years every three years. The recent renewal was done in October 2022, at an agreed monthly rent of. ~Rs 1.1 crore. This is likely to contribute significantly to accruals. Further, steady rentals from the commercial real estate would support the company's cash flows to an extent during downturns.

Credit challenges

Thin margins inherent to dealership business; intense competition – The Group's profit margins have historically been thin, akin to other automobile dealers. It reported operating profit margins of 4.1% and net profit margins of 1.7% in H1 FY2023. While the margins remain vulnerable to competition from dealerships of the same principal as well as competing OEMs, the Group's established presence, rental income and likely benefits from healthy operating leverage are likely to support margins and accruals to an extent.

Revenues exposed to cyclicality inherent to the CV industry – The Group derived 61% of its revenues from the CV segment, while the remaining is from the PV segment in H1 FY2023. The CV segment remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. While CV demand has improved in the last few quarters, it was sluggish in the last few years, affected by revision in axle load norms, slowing economic growth, tightened financing environment, and pandemic-induced lockdowns and interstate restrictions. The Group's revenues remain susceptible to any industry slowdown going forward as well, akin to that witnessed in FY2020 and FY2021.

Moderate debt coverage metrics – The group has a total debt of Rs. 138.2 crore and adjusted net debt[1] of Rs. 67.9 crore as on September 30, 2022 (as per provisional financials). The Group's coverage metrics have improved in FY2022 and H1 FY2023 with improvement in accruals. Nevertheless, it remains moderate with total debt/OPBDITA of 3.0 times as on September 30, 2022 (as per provisional financials) against 4.9 times as on March 31, 2021 and adjusted net debt/OPBDITA of 1.2 times as on September 30, 2022 (as per provisional financials) against 2.4 times as on March 31, 2021. In the absence of significant debt-funded capex plans, the coverage metrics are likely to improve going forward.

Liquidity position: Adequate

The Group's liquidity is adequate supported by its anticipated cash flow from operations, free cash and bank balances and undrawn lines of credit. The Group had free cash and bank balances of Rs. 21.9 crore as on September 30, 2022 and undrawn working capital lines of Rs 140.9 crore as on September 30, 2022. These apart, it has strategic investment in its Group company, V.S.T. Tiller Tractors Limited ([ICRA]AA-(Positive)/[ICRA]A1+) with market value of around Rs. 85.6 crore as on November 28,

[1] *Total debt adjusted for free cash and bank balances of Rs. 21.9 crore and loans from related parties of Rs. 48.4 crore as on September 30, 2022*

2022. In relation to these sources of cash, the Group has repayments of Rs. 12.0 – 13.0 crore per annum during FY2023-FY2025 on its existing loans. In terms of capex, the Group has purchased land for Rs 15.0 crore in October 2022 for a new Kia showroom in Hosur, and about Rs 10.0 crore expected to be incurred for its construction in FY2024, to be funded through internal accruals. This apart, the Group has minimal maintenance plans going forward.

Rating sensitivities

Positive factors – The rating could be upgraded if the Group demonstrates a healthy revenue growth, while sustaining healthy margins. Specific credit metric that could lead to an upgrade include interest coverage ratio of more than 4.0 times on a sustained basis.

Negative factors – The rating may be downgraded if there is significant decline in scale of operations or profitability, due to subdued demand, leading to pressure on cash accruals and debt metrics or if the Group extends additional support to other related concerns, resulting in a deterioration of the liquidity profile. Specific credit metric includes weakening of interest coverage below 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Automobile Dealership Industry Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of V.S.T. Motors Private Limited, its subsidiary V.S.T. And Sons Private Limited (VSTS), and Chennai Auto Agency Private Limited (CAAPL) as all the three entities have common promoters/management and operate in the same business of automobile dealership and affiliated services.

About the company

VSTM is an established dealer for CVs of TML and PVs of Kia Motors in Tamil Nadu. It has 15 showrooms spread across ten districts of Tamil Nadu for the TML dealership and three showrooms for Kia in Chennai, Salem and Vellore.
VSTM has two subsidiaries i) VST&S ([ICRA]BBB+(Stable)), the sole authorised dealer for JLR Limited in Tamil Nadu with two showrooms in Chennai and Coimbatore; and ii) V.S.T Titanium Motors Private Limited, the authorised dealer for Mercedes Benz cars in Chennai. CAAPL used to be the dealer for Ford Cars in Chennai earlier. Currently, it has two workshops, one each in Chennai and Poonamallee, for Ford service and spares and this is likely to continue until September 2024. VST Supercars was started about six months back, for dealing with Porsche vehicles in Karnataka. The group earlier had Mahindra PV dealership in Chennai through a company by name India Garage. This has not been operational since the last one and half years, as part of the group strategy to exit the Mahindra PV dealership business. The VST Group is also engaged in manufacturing of tractors and tillers through V.S.T. Tillers Tractors Limited ([ICRA]AA-(Positive)/[ICRA]A1+).

Key financial indicators

Consolidated	FY2021 (Audited)	FY2022 (Unaudited)
Operating income	767.5	965.9
PAT	6.5	18.9
OPBDIT/OI	4.3%	4.7%
PAT/OI	0.8%	2.0%
Total outside liabilities/Tangible net worth (times)	1.5	1.2
Total debt/OPBDIT (times)	4.9	3.4
Interest coverage (times)	2.6	4.4

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA – Not Applicable

Any other information – None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 30, 2022	Aug 02, 2021	Nov 10, 2020	Jan 31, 2020
1	**Fund-based – CC**	Long term	65.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – CC	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – CC**	NA	7.75%-9.00%	NA	65.00	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
V.S.T. Motors Private Limited	-	Full consolidation
V.S.T. & Sons Private Limited	VSTM has 99.6% holding in VST&S	Full consolidation
Chennai Auto Agency Private Limited	-	Full consolidation

Source: Company

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