March 20, 2025

Varun Motors Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	814.00	1009.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund Based Limits	11.00	16.00	[ICRA]A2+; reaffirmed
Long-term / Short-term – Unallocated limits	215.00	-	-
Long-term – Fund based - Term loan	-	15.00	[ICRA]A- (Stable); reaffirmed
Total	**1,040.00**	**1,040.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider Varun Motors Private Limited's (VMPL) established presence as an automobile dealer in Andhra Pradesh, Telangana and Karnataka, and its diversified presence across four segments – passenger vehicles (PVs), commercial vehicles (CVs), two wheelers (2Ws) and three wheelers (3Ws), and construction equipment (CE). VMPL is an authorised dealer of Maruti Suzuki India Limited (MSIL) in the PV segment, Bharat Benz (Daimler India Commercial Vehicles) in the CV segment, Bajaj Auto Limited (BAL) in the 2W and 3W segments, and Joseph Cyril Bamford (JCB) in the CE segment. Diversified revenue streams mitigate the impact of slowdown in select segment(s). Further, the non-cyclical business of PVs and 2Ws accounted for more than 80% of its dealership revenues during the past three years. The company recorded 9% revenue increase in FY2024 on the back of stable demand growth and improvement in realisations. However, revenue growth is expected to be muted in FY2025 owing to subdued demand in PV and CV segments. Nevertheless, expected recovery of demand in these segments and healthy demand in the 2W segment are likely to result in 2-4% revenue growth in FY2026.

With effect from March 31, 2024, the company took over the lending operations of Lakshmi Finance (LF), a partnership concern involved in the business of financing vehicles. LF had a loan portfolio of Rs. 407.1 crore as on March 31, 2024, which increased the overall loan book of VMPL's lending operations to Rs. 639.3 crore. Increased scale of lending operations led to increase in its debt levels to Rs. 1027.5 crore as on March 31, 2024, from Rs. 454.3 crore as on March 31, 2023. ICRA notes that while the healthy interest income generated from lending operations is expected to augment the company's earnings, its leverage and coverage metrics are expected to moderate in FY2025 owing to increased debt levels.

The ratings are constrained by VMPL's moderate operating profitability, inherent to the dealership nature of its business, as the margins on vehicles, spares, service and accessories are all controlled by the principal. The ratings also remain constrained by the intense competition from dealers of its principals across segments and dealers of other original equipment manufacturers (OEMs), resulting in increased pressure to pass on the price discounts to customers. Moreover, high inventory levels in the PV segment amidst demand slowdown led to steeper discounts, affecting its margins in the past two years, high debt levels and increased interest costs. However, inventory holding normalised since December 2024, which is expected to support recovery in margins, going forward. Further, VMPL faces high geographical concentration risk, with a predominant share of its revenue derived from Andhra Pradesh and Telangana; however, it started MSIL's dealership in Bengaluru, which reduced the geographical concentration of revenues to an extent. The ratings are consider the impact of lending operations on the overall credit profile, as it potentially exposes the company to the pressures arising from asset quality and lack of regulatory oversight for its lending operations.

The Stable outlook on the long-term rating factors in ICRA's expectation that VMPL will record a steady growth in its revenues and profits, leading to an improvement in its accruals and debt metrics.

Key rating drivers and their description

Credit strengths

Diversified presence with dealership of MSIL, BAL, JCB and Bharat Benz – VMPL is the authorised dealer for MSIL's PVs, Bharat Benz's CVs, BAL's 2Ws and 3Ws, and JCB's CE. Further, the non-cyclical business of PVs and 2Ws accounted for more than 80% of its dealership revenues during the past three years. VMPL has strong credentials as one the largest dealers of PVs for MSIL, which is a leader in the PV segment with a market share of 40.6% in H1 FY2025. It is an authorised dealer of Bharat Benz for 11 districts in Andhra Pradesh and has authorised dealerships of BAL's 2Ws and 3Ws in five districts of Andhra Pradesh and three districts in Telangana. It is also the sole authorised dealer of JCB in seven districts in Andhra Pradesh, including Vijayawada and Visakhapatnam.

Wide sales network – VMPL has a wide sales network with more than 400 touch points (including showrooms, sales depots, workshops, True value shops and driving schools) across Andhra Pradesh, Telangana and Karnataka, covering Hyderabad, Ranga Reddy, Kamareddy, Medak, Sangareddy, Vikarabad, Nizamabad, Krishna, Khotagudam, Visakhapatnam, Vizianagaram and Srikakulam districts, as well as Bengaluru. The increase in the number of showrooms, outlets and workshops, along with its strong market position in Andhra Pradesh and Telangana, has supported VMPL's revenue growth over the years.

Credit challenges

Increased loan book of lending operations results in moderation in capital structure and debt coverage indicators – The Group's gearing moderated to 1.3 times as on March 31, 2024, from 0.8 times as on March 31, 2023, owing to an increase in the loan book of lending operations to Rs. 639.3 crore as on March 31, 2024, from Rs. 185.3 crore as on March 31, 2023, after it took over the operations of one of its Group entities, Lakshmi Finance, in March 2024. While the company's earnings are expected to be augmented by the healthy margins in the lending operations, its coverage metrics are estimated to have moderated in FY2025, given the increased debt levels.

Modest margins inherent in dealership business; impacted further by high inventory holding and steeper discounts in FY2025 – VMPL's operating margins have been low in the past on account of the dealership industry dynamics, wherein margins on vehicles, spares, service, and accessories are mainly controlled by the principal. The company's margins moderated to 4.2% in FY2024 from 4.7% in FY2023 owing to higher discounts offered to its customers and increase in employee expenses. The company's automobile dealership margins are expected to moderate further in FY2025 owing to increased discounts, especially in the PV segment. However, the margins of the lending operations are expected to support its earnings. Vehicle sales are the main revenue driver for the company, which accounted for 78-80% of the sales, while the remaining 20-22% came from spares, services, accessories, and other income over the last two years. The profit margins are higher for spares and service income than vehicle sales.

Exposed to intense competition and regional concentration of sales – VMPL faces competition from dealers of other OEMs and the same principal across all four dealerships, resulting in increased pressure to pass on price discounts to customers. Sales are regionally concentrated with the major portion of its revenue coming from Andhra Pradesh and Telangana. However, the company bagged MSIL's dealership in Bengaluru, which reduced its geographical concentration of revenues to an extent.

Risks related to lending operations – VMPL's lending operations exposes it to the risk from the asset quality of its loan portfolio, lack of regulatory supervision for its lending operations, and increased debt levels. Any material increase in lending operations, leading to a stretch in capital structure or coverage metrics, would be a key monitorable.

Liquidity position: Adequate

The company had a buffer of Rs. 50-100.0 crore in working capital limits against its drawing power as on January 31, 2025, and is expected to generate retained cash flows of over Rs. 40.0 crore against repayment obligations of Rs. 6-8.0 crore in the next 12 months. The company has no major debt-funded capex plans, however, it is expected to incur maintenance capex of Rs. 40-60.0 crore per annum. The company is planning to avail term loan of ~Rs. 250.0 crore in FY2026 to repay a part of the unsecured loans availed from Group companies and to reduce its working capital borrowings.

Rating Sensitivities

Positive factors – The ratings could be upgraded if the Group demonstrates a strong revenue growth while sustaining healthy margins, leading to an improvement in its debt metrics.

Negative factors – The ratings may be downgraded if a significant decline in scale of operations or profitability, due to subdued demand or high discounts, affects its debt metrics or liquidity position on a sustained basis. Any material increase in lending operations, weakening the liquidity profile or a stretch in capital structure or coverage metrics could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Automobile Dealers
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1996, Varun Motors Private Limited (VMPL) is the authorised dealer of Maruti Suzuki India Limited's (MSIL) passenger vehicles across Andhra Pradesh, Telangana and Karnataka covering Hyderabad, Ranga Reddy, Kamareddy, Medak, Sangaredy, Vikarabad, Nizamabad, Krishna, Khotagudam, Vishakhapatnam, Vizianagaram and Srikakulam districts, and Bangalore with over 160 showrooms, service centers and True Value outlets. VMPL is the sole MSIL dealer in Nizamabad and Srikakulam districts, whereas in other districts, it has a non-exclusive dealership. VMPL is also the sole authorised Bharat Benz dealer for 11 districts in Andhra Pradesh.

In January 2022, the automobile dealership business of Varun Motors was taken over by VMPL. Hence, it is also an authorised 2W and 3W dealer of Bajaj Auto Limited (BAL) for five districts in Andhra Pradesh (Visakhapatnam, Vizianagaram, Srikakulam, Krishna, West Godavari) and three districts in Telangana (Rangareddy, Vikarabad and Sangareddy), and an exclusive JCB dealer for seven districts in Andhra Pradesh, namely Guntur, Krishna, West Godavari, East Godavari, Visakhapatnam, Vizianagaram and Srikakulam with 13 showrooms and outlets and two workshops.

In July 2022, VMPL took over the lending operations of Varun Finance, which was a proprietorship concern and on March 31, 2024, VMPL also took over the lending operations of Lakshmi Finance. Both the entities were involved in financing 2W and 3W vehicles

Key financial indicators (audited)

VMPL	FY2023	FY2024
Operating income	4,619.5	5,031.2
PAT	133.7	118.6
OPBDIT/OI	4.7%	4.2%
PAT/OI	2.9%	2.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.6
Total debt/OPBDIT (times)	2.1	4.9
Interest coverage (times)	8.6	5.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Mar 20, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund Based – Cash Credit	Long term	1009.00	**[ICRA]A-(Stable)**	Dec-15-23	[ICRA]A-(Stable)	Sept-30-22	[ICRA]BBB+; rating watch with developing implications	Jun-29-21	[ICRA]BBB+ (Positive)
Non-Fund Based Limits	Short term	16.00	**[ICRA]A2+**	Dec-15-23	[ICRA]A2+	Sept-30-22	[ICRA]A2; rating watch with developing implications	Jun-29-21	[ICRA]A2
Term loan	Long term	15.00	**[ICRA]A-(Stable)**	-	-	-	-	-	-
Unallocated Limits	Long term and short term	-	-	Dec-15-23	[ICRA]A-(Stable)/ [ICRA]A2+	Sept-30-22	[ICRA]BBB+ /[ICRA]A2; rating watch with developing implications	Jun-29-21	[ICRA]BBB+ (Positive)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short-term – Non-fund Based Limits	Very Simple
Long-term – Term loan	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 – Cash Credit**	NA	NA	NA	1009.00	[ICRA]A- (Stable)
NA	**Non-Fund Based Limits**	NA	NA	NA	16.00	[ICRA]A2+
NA	**Term loan**	Jan 2024	NA	Jan 2027	15.00	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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