

February 02, 2024

V.S.T. Motors Private Limited: Long-term rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	65.00	65.00	[ICRA]A- (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. & Sons Private Limited (VST&S), and V.S.T. Titanium Motors Private Limited (VSTT), and Chennai Auto Agency Private Limited (CAAPL) (collectively referred to as the VSTM Group) as all these 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 for passenger vehicles (especially the luxury car segment) over the medium term and expected improvement in the VSTM Group's revenues, accruals, and debt metrics on account of the same going forward. VSTM Group reported healthy YoY growth of 25.2% in revenues to Rs. 1,424.6 crore in FY2023 and annualised growth of 23.7% to Rs. 881.1 crore in H1 FY2024, aided by healthy market demand. The higher scale has resulted in improvement in accruals as well. The revenues and accruals are likely to improve further going forward, given the healthy demand outlook (especially for luxury cars) over the medium term. The VSTM Group's capital structure and coverage metrics also remain comfortable, aided by healthy accruals amid minimal capex and low working capital intensity. The company's gearing (total debt¹/tangible net worth) stood at 0.8 times as on March 31, 2023, while its interest coverage stood at 4.2 times in H1 FY2024. The debt metrics are expected to remain comfortable going forward as well, in the absence of significant capex plans, amid anticipated healthy accruals.

The rating also draws comfort from the established presence of the VST Group in automobile dealership business, its diversified presence being the dealer of several key original equipment manufacturers (OEMs) and healthy share of OEMs' sales in respective geographies across dealerships. Further, the VSTM Group has steady rental income of Rs. 14.4 crore per annum from its commercial real estate asset in Mount Road, Chennai, which would support its cash flows to an extent during downturns. However, the VSTM 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 commercial vehicles (CV) industry, given that 54% of the VSTM Group's revenues were derived from the CV segment in H1 FY2024.

Key rating drivers and their description

Credit strengths

Established presence of the VST Group in the automobile dealership business – VSTM Group is part of the larger VST Group, which has 11 automobile dealerships across Tamil Nadu and Karnataka. The VST Group has had presence for over 100 years, of which more than six decades have been in Tamil Nadu. The VST Group has dealerships of various reputed auto OEMs, namely Tata Motors Limited (TML), Kia Motors India Private Limited (Kia), Jaguar Land Rover India Limited (JLR), Mercedes Benz India

¹ Total debt as on March 31, 2023 was Rs. 163.8 crore, which includes unsecured loans from promoters of Rs. 49.6 crore;

Private Limited (Mercedes Benz), Porsche India Private Limited (Porsche), Mahindra & Mahindra, Skoda Auto Volkswagen India Private Limited (Volkswagen) among others, and the dealership portfolio has been periodically expanding over the years. VSTM Group enjoys healthy financial flexibility and lender/investor comfort by virtue of being part of larger VST group. The promoters have infused unsecured loans in the past for facilitating expansions, as and when required.

Diversification within the dealership business; healthy share of OEMs' sales in respective geographies across dealerships – VSTM is an established dealer for TML's CVs and Kia passenger vehicles 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 & Sons Private Limited (VST&S), the sole authorised dealer for JLR in Tamil Nadu with two showrooms in Chennai and Coimbatore; and ii) V.S.T Titanium Motors Private Limited (VSTT), the authorised dealer for Mercedes Benz cars in Chennai. CAAPL, which used to be the dealer for Ford Cars in Chennai earlier, is currently operating two workshops in Chennai for Ford spares and services. The diversified presence across CV and PV (including luxury cars) segments and multiple OEMs within that, mitigates revenue risks which could arise from downturn/issues in specific sub-segments or specific OEM-related challenges. The company also has healthy share of OEMs' business in respective geographies across dealerships.

Healthy growth in revenues and accruals in FY2023 and H1 FY2024; expected to remain healthy over medium term - The VSTM Group reported healthy YoY growth of 25.2% in revenues to Rs. 1,424.6 crore in FY2023 and annualised growth of 23.7% to Rs. 881.1 crore in H1 FY2024, aided by healthy market demand. The higher scale has resulted in improvement in accruals as well. The revenues and accruals are likely to improve further going forward, given the healthy demand outlook (especially for luxury cars) over the medium term.

Comfortable debt metrics; rental income from commercial real estate supports profits – The VSTM Group's capital structure and coverage metrics were comfortable, aided by healthy accruals amid minimal capex and low working capital intensity. The company's gearing (total debt/total net worth) stood at 0.8 times as on March 31, 2023, while its interest coverage improved to 4.2 times in H1 FY2024. The debt metrics are expected to remain comfortable going forward as well, in the absence of significant capex plans, amid anticipated healthy accruals. ICRA also draws comfort from VSTM Group's steady rental income of Rs. 14.4 crore per annum from its commercial real estate asset in Mount Road, Chennai, which would support its cash flows to an extent during downturns.

Credit challenges

Thin margins inherent to dealership business; intense competition - VSTM Group's profit margins have historically been thin, akin to other automobile dealers. It reported operating profit margins of 3.8% and net profit margins of 2.2% in H1 FY2024. While the margins remain vulnerable to competition from dealerships of the same principal as well as competing OEMs, the VSTM Group's established presence, diversification across multiple OEMs, steady rental income and benefits from healthy operating leverage are likely to support margins to an extent.

Revenues exposed to cyclicity inherent of the CV industry - VSTM Group derived 54% of its revenues from the CV segment in H1 FY2024, while the remaining was from the passenger vehicles (PV) segment in H1 FY2024. The CV segment remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Accordingly, VSTM Group's revenues remain susceptible to any industry slowdown going forward as well, akin to that witnessed in FY2020 and FY2021.

Liquidity position: Adequate

VSTM Group's liquidity is adequate supported by its anticipated cash flow from operations, free cash and bank balances and undrawn lines of credit. It had free cash and bank balances of Rs. 21.0 crore as on September 30, 2023 and undrawn working capital lines of Rs 49.6 crore as on September 30, 2023. In relation to these sources of cash, it has repayments of Rs.13.6 crore in H2 FY2024, and over Rs. 25.0 crore during FY2025-FY2026 on existing and sanctioned debt. VSTM Group has a capex of Rs.

15-20 crore in FY2024 and Rs. 5-10 crore each in FY2025 and FY2026. Part of the FY2024 capex (Rs. 10.0 crore) is for showroom expansion and has been debt-funded. The remaining capex across the years is for maintenance and is likely to be funded through internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if VSTM Group demonstrates a healthy revenue growth, while sustaining healthy margins and improvement in liquidity position 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 VSTM Group extends additional support to other related entities, resulting in a deterioration of the liquidity profile. Specific credit metric includes weakening of interest coverage below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Automobile Dealerships
Parent/Group support	NA
Consolidation/Standalone	ICRA has taken a consolidated view of 1. V.S.T. Motors Private Limited and its subsidiaries V.S.T. And Sons Private Limited and V.S.T. Titanium Motors Private Limited and 2. Chennai Auto Agency Private Limited as all these entities have common promoters/management and operate in the same business of automobile dealership and affiliated services.

About the company

VSTM Group is part of the larger VST Group, which has in total 11 automobile dealerships across Tamil Nadu and Karnataka. The VST Group has had presence for over 100 years, of which more than six decades have been in Tamil Nadu. The Group has dealerships of various reputed auto OEMs, namely Tata Motors Limited (TML), Kia Motors India Private Limited (Kia), Jaguar Land Rover India Limited (JLR), Mercedes Benz India Private Limited (Mercedes Benz), Porsche India Private Limited (Porsche), Ducati India Private Limited (Ducati), Mahindra & Mahindra, Skoda Auto Volkswagen India Private Limited (Volkswagen) among others, and the dealership portfolio has been periodically expanding over the years. VST Motors Private Limited (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 & Sons Private Limited (VSTS), the sole authorised dealer for JLR Limited in Tamil Nadu with two showrooms in Chennai and Coimbatore; and ii) VST Titanium Motors Private Limited (VSTT), 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. The VST Group is also engaged in manufacturing of tractors and tillers through V.S.T. Tillers Tractors Limited ([ICRA]AA-(Positive)/[ICRA]A1+). VST Motors Private Limited holds a 4.5% stake in VST Tillers Tractors Private Limited.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	1,137.9	1,424.6
PAT	32.0	38.6
OPBDIT/OI	5.2%	5.3%
PAT/OI	2.8%	2.7%

Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	2.9	2.2
Interest coverage (times)	4.9	7.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; Consolidated includes VSTM consolidated figures and line by line addition of CAAPL figures; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Dec, 31 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 02, 2024	Nov 30, 2022	Aug 02, 2021	Nov 10, 2020
1 Cash Credit	Long term	65.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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]A- (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 holds 99.6% stake	Full consolidation
V.S.T. Titanium Motors Private Limited	100%	Full consolidation
Chennai Auto Agency Private Limited	-	Full consolidation

Source: Company

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