

June 08, 2021

## VVC Motors Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	35.00	33.75	[ICRA]BBB(Negative) reaffirmed;
Short term – Non fund based/BG	5.00	6.00	[ICRA]A3+ reaffirmed;
Long term/Short term – unallocated	0.00	0.25	[ICRA]BBB(Negative)/[ICRA]A3+ reaffirmed;
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings of VVC Motors Pvt. Ltd. (VVC MPL) consider the extensive experience of the promoters spanning over three decades in the automobile dealership industry and the VVC Group's presence across two-wheeler (2W), three-wheeler (3W), commercial vehicle (CV), passenger vehicle (PV) and farm equipment segment since 1986. The ratings note VVC's established position as a dealer of Mahindra & Mahindra Limited's (M&M) CVs and PVs in Nalgonda, Khammam, Hyderabad and Ranga Reddy districts, in Telangana. Further, VVC MPL is the sole dealer for Nalgonda and Khammam districts, while it is one of the two dealers in Hyderabad and Ranga Reddy districts, with 15 outlets spread across the four districts.

The ratings are, however, constrained by decline in scale of operations of VVC MPL as the revenues dipped by ~34% in FY2021 because of ~44% contraction in volume owing to subdued demand during the Covid-19 pandemic-led nationwide lockdown in Q1 FY2021. While the demand revived in H2 FY2021, the second wave of Covid-19 and localised lockdowns are likely to impact the company's revenues in FY2022. The ratings are also constrained by declining share of M&M in PV segment where VVC MPL derives majority of its revenue. The ratings consider VVC MPL's moderate financial risk profile with thin profit margins and moderate Debt/OPBDIT of 3.3 times for FY2021. The ratings factor in the high geographical concentration risk as VVC MPL's revenue is derived from four districts in Telangana. It also faces stiff competition from other OEM dealers in the region.

The rating outlook continues to remain Negative as the company's sales volumes are likely to be impacted by the second wave of Covid-19 pandemic and localised lockdowns over the next few months.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in automobile dealership industry** – VVC MPL's operations are overseen by its Managing Director, Mr. V. V. Rajendra Prasad, who has been involved in the automobile industry since the past three decades. The VVC Group has presence across 2W, 3W, CV, PV and farm equipment (tractors primarily) segment since 1986.

**Established market position of VVCMP in four districts of Telangana** – Incorporated in 2009, VVCMP is an authorised dealer of M&M’s PVs, CVs, and 3Ws. VVC has an established market position as an authorised dealer of M&M in Hyderabad, Khammam, Nalgonda and Ranga Reddy districts, in Telangana. VVCMP is the sole dealer for Nalgonda and Khammam districts, while it is one of the two dealers in Hyderabad and Ranga Reddy districts.

### Credit challenges

**Thin operating margins inherent to dealership business** – The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. Further, intense competition in the auto dealership business results in low margins. However, VVCMP’s operating margin improved to 3.4% in FY2021 from 2.6% in FY2020, despite the decline in revenues, as the company downsized its employee strength during the year. The operating income (OI) decreased to Rs. 201.8 crore in FY2021 from Rs. 304.0 crore in FY2020 owing to lower sales volume. The revenues are expected to improve in FY2022. Nevertheless, the revival will be impacted by the second wave of Covid-19 pandemic and duration of lockdowns.

**Moderation in coverage indicators** – The coverage indicators remained moderate as the Debt/OPBDIT increased to 3.3 times in FY2021 from 1.2 times in FY2020 owing to higher working capital borrowings due to higher inventory in FY2021. The TOL/TNW increased to 1.2 times in FY2021 from 0.7 times in FY2020 driven by higher debt at the end of the year. The coverage indicators are expected to remain moderate with stable profit margins in near term.

**Weakening market position of M&M in domestic PV market** – While M&M has maintained its leadership position in the CV segment, its relatively underperformance in the fast-growing compact UV sector resulted in a steady decline in its market share in FY2020 and FY2021. Further, VVCMP derives a major portion of sales from the UV segment. Amid the successful launches by M&M’s competitors in the UV segment, the company may face challenges to maintain its sales growth.

**Intense competition and regional concentration of sales** – The company faces competition from dealers of other original equipment manufacturers (OEMs), along with dealers from the same principal resulting in increased pressure to pass on price discounts to customers. The sales are regionally concentrated with its revenue derived from four districts across Telangana.

### Liquidity position: Adequate

The company’s liquidity position is **adequate**, as reflected by ~Rs.7.5 crore buffer in fund-based limits as on May 30, 2021 and free cash balances of around Rs. 1.2 crore against repayment obligations of Rs. 0.2 crore on in FY2022. The expected cash accruals would be sufficient to meet these repayments comfortably.

### Rating sensitivities

**Positive factors** – A rating upgrade is unlikely in the medium term given the Negative outlook. However, ICRA may change the outlook to Stable if recovery in demand results in an improved turnover and margins, along with better working capital management strengthening the financial risk profile.

**Negative factors** – Pressure on VVC’s ratings may arise if there is a significant decline in scale of operations and profitability due to a prolonged impact of the second wave of Covid-19 pandemic, adversely affecting its financial performance and liquidity position. A weakening in TOL/TNW ratio to greater than 2.0 times, on a sustained basis, may exert negative pressure on the company’s ratings.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Automobile Dealership</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity

## About the company

Incorporated in 2009, VVCMPL is an automobile dealer of M&M's PVs, CVs, and 3Ws in Hyderabad, Khammam, Nalgonda and Ranga Reddy districts of Telangana. VVCMPL's operations are overseen by its Managing Director, Mr. V. V. Rajendra Prasad, who is a postgraduate in law and has been involved in the automobile industry since the past three decades. VVC has 15 outlets spread across four districts of Telangana.

## Key financial indicators (Provisional)

	FY2020	FY2021*
Operating Income (Rs. crore)	304.0	201.8
PAT (Rs. crore)	3.5	3.1
OPBDIT/OI (%)	2.6%	3.4%
PAT/OI (%)	1.2%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	1.2
Total Debt/OPBDIT (times)	1.2	3.3
Interest Coverage (times)	3.3	4.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Provisionals for FY2021\**

## Status of non-cooperation with previous CRA:

CRISIL, in its rationale dated November 30, 2020, has put the rating in non-cooperating category (CRISIL B/Stable/A4 (ISSUER NOT COOPERATING)) based on best available or limited or dated information.

India Ratings and Research (Ind-Ra), in its rationale dated October 25, 2018, has maintained the rating in non-cooperating category (IND BB+ (ISSUER NOT COOPERATING)) in the absence of adequate information from the company.

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated	Amount O/s	Date & Rating in Jun 08, 2021	FY2021	FY2020	FY2019
1 Cash credit	Long-term	33.75	NA	[ICRA]BBB(Negative)	[ICRA]BBB(Negative)	-	[ICRA]BBB(Stable)
2 Bank guarantee	Short term	6.00	NA	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3+
3 Unallocated limits	Long term/Short term	0.25	NA	[ICRA]BBB(Negative)/A3+	-	-	[ICRA]BBB(Stable)/A3+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Short term – Non fund based – Bank guarantee	Very simple
Long term/Short term – unallocated	NA

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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	33.75	[ICRA]BBB(Negative)
NA	Bank guarantee	NA	NA	NA	6.00	[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	0.25	[ICRA]BBB(Negative)/[ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Nithya Debbadi**

+91 40 4067 6515

[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

**Srikumar K**

+91 44 45964318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Akshay Dangi**

+91 40 4067 6528

[akshay.dangi@icraindia.com](mailto:akshay.dangi@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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