

July 21, 2017

VST Motors Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term: Fund-based Facilities	65.00 (enhanced from 55.00)	[ICRA]BBB (stable); assigned / outstanding
Total	65.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has a long-term rating of [ICRA]BBB (pronounced ICRA triple B) outstanding on the Rs 55.00 crore¹ fund-based facilities of VST Motors Private Limited (VST Motors). ICRA has also assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) for the Rs 10.00-crore additional fund-based facilities of VST Motors. The outlook on the long-term rating is Stable².

Rationale

For arriving at the ratings, ICRA has consolidated the financials of VST Motors and its two subsidiaries – V.S.T. & Sons Pvt. Ltd. and V.S.T. Auto Parts Pvt. Ltd. – as well as Chennai Auto Agency Private Limited as all the four entities form a part of the same Group and operate in the similar lines of businesses of automobile dealership and affiliated services.

The rating reaffirmation continues to factor in the six-decade-long experience of the promoters of VST Group in the automotive dealership business, and the strong foothold of the Group in Southern India as an authorised dealer for various renowned OEMs (Original Equipment Manufacturer) including Tata Motors Limited (TML), Mahindra & Mahindra Limited, Ford India Limited, Volkswagen Group, Honda Cars India Limited and Bajaj Auto Limited apart from being the manufacturers of tractors and tillers. The rating also takes note of the strong association of VST Motors with TML, the market leader in the domestic commercial vehicle (CV) space. The company has been an authorised dealer for TML's CV vehicles for more than five decades. Also, its geographic diversification with a wide network of sales showrooms spread across various districts of Tamil Nadu and Pondicherry is a positive.

However, the rating is constrained by the moderation in the revenue growth in FY2017 at the consolidated level. The Group achieved a revenue growth of 1.45% in FY2017 compared with 6.50% in FY2016, mainly on account of suspension of passenger vehicle (PV) business by VST Motors during FY2017, as Tata Motors Limited's (TML) market position in the Indian PV industry gradually weakened over the past few years. The revenue loss from the PV business was partially offset by the growth in the commercial vehicle (CV) business in FY2017, primarily due to the liquidation of BS-III emission norms compliant vehicles in stock by March 31, 2017, owing to the ban on manufacturing and sale of BS-III compliant vehicles with effect from April 1, 2017. Apart from the thin margins inherent in the trading nature of business, the rating is constrained by the deteriorated margins at the consolidated level in FY2017 as VST Motors incurred net loss on account of suspension of the PV business. Further, the impact of implementation of BS-IV emission norms from April 1, 2017 and the expected implementation of Good and Services Tax (GST) from July 1, 2017, on the company's CV business remain to be seen.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The rating is further constrained by the increase in gearing of VST Group from 2.10 times as on March 31, 2016 to 2.44 times as on March 31, 2017, mainly on account of VST Motors' sizeable capital expenditure for the construction of a new office building for the VST Group. Also, the Group requires high working-capital funding to maintain its inventory across showrooms, leading to a leveraged capital structure. However, the gearing, after adjusting for loan and advance from related parties and group companies, stood at 1.3 times as on March 31, 2017 compared with 1.5 as on March 31, 2016.

Key rating drivers

Credit strengths

- Six-decade-long experience of the promoter group in the auto dealership business
- Diversified business portfolio of the VST Group with presence as authorised dealers of various OEMs across commercial vehicles (CV), passenger vehicles (PV) and two-wheeler segments
- Strong relationship of the Group with Tata Motors Limited (TML), being a its dealer since 1955; the Group also handles exclusive dealership of JLR vehicles for Tamil Nadu
- Wide network of sales showrooms across various districts of Tamil Nadu and Pondicherry

Credit weaknesses

- Moderation in the Group's revenue growth from 6.50% in FY2016 to 1.45% in FY2017, mainly on account of suspension of PV business by VST Motors
- Deterioration of the Group's margins, primarily on account of the net loss incurred by VST Motors due to the closure of the PV business in FY2017
- Thin margins inherent to the trading nature of operations
- Increase in the Group's gearing from 2.1 times as on March 31, 2016 to 2.44 times as on March 31, 2017 on account of a sizable capital expenditure being incurred by VST Group for the construction of a new building
- Operations tightly linked to the performance of TML; decline of TML's market share over the past few years due to heightened competition has impacted the company's sales

Description of key rating drivers

VST Motors is a family-run business and is a part of the large VST Group, which has been in existence for more than five decades. The company is currently managed by the fifth generation of the promoter family group. It has been a dealer of TML vehicles since 1955, which resulted in its strong association with the Tata Group. The VST Group is involved in the automotive dealership business for various renowned OEMs such as TML, Mahindra & Mahindra Limited, Ford India Limited, Volkswagen Group, Honda Cars India Limited and Bajaj Auto Limited. This apart, the VST Group – through VST Tillers Tractors Limited – is involved in the manufacturing of tractors and tillers. VST Tillers Tractors Limited, which is rated at [ICRA]AA (Stable/A1+), is a public-listed company with a market valuation of around Rs. 1500.0 crore. VST Motors holds 4.13% of shares in VST Tillers Tractors (the market value of investment is around Rs 60.0 crore), which lends it financial flexibility. With a diversified business portfolio, the Group is in a better position to face the challenges associated with the decline in auto volumes in a particular segment. As such, its established network across both Tamil Nadu and Karnataka strengthens its foothold in the automotive dealership business in Southern India.

VST Motors deals in medium and heavy commercial vehicles (M&HCV) and light commercial vehicles (LCV) segment in the CV space and are the flagship company of the VST Group (among the four entities rated). The company also dealt in PV segment till FY2017 as these operations were suspended on account

of the weakening of TML's market position in the Indian PV industry owing to heightened competition in the face of successful launches by competing OEMs. The closure of this business resulted in net loss during FY2017. The CV segment, on the other hand, registered growth in FY2017 after witnessing continuous de-growth during FY2014-2016. The growth can be attributed to the ban on manufacturing and sale of BS-III emission norms compliant vehicles, effective April 1, 2017, which had driven the CV sales volume up in the last two days of March 2017. However, the company as a whole registered an 8.9% decline in revenues, mainly on account of suspension of PV segment during H2 FY2017. While the operating margins decreased only marginally in FY2017 when compared with FY2016, the company incurred a net loss in FY2017 as against a net profit in FY2016 on account of the suspension of the PV segment.

On the capital structure front, the company's gearing increased from 3.1 times as on March 31, 2016 to 3.8 times as on March 31, 2017 as the company commenced a capital expenditure project of Rs. 50.0 crore towards which the company issued non-convertible debentures of around Rs. 20.0 crore to VST Tiller Tractors Limited. VST Motors is constructing a new office building, which is partly for self-occupation by the Group companies and partly for letting out to third-party corporate. The construction is expected to be completed by end of FY2020. The company has proposed to fund the project primarily by the internal accruals of the Group and expects a small portion to be funded by bank loan. Thus, the gearing of the company with respect to external debt funding is expected to slightly increase in the near term.

At the consolidated level, the Group witnessed decline in revenue growth from 6.50% in FY2016 to 1.45% in FY2017, mainly on account of suspension of PV business of VST Motors during FY2017. Also, the Group's margins deteriorated in FY2017 from FY2016 owing to the suspension. The gearing of the Group also increased from 2.10 times as on March 31, 2016 to 2.44 times as on March 31, 2017, primarily due to the sizable capital expenditure incurred by VST Motors for construction of the new office building for the VST Group. However, the gearing, after adjusting for the loans and advances received from the related parties, stood at 1.3 times as on March 31, 2017 compared with 1.5 times as on March 31, 2016.

Analytical approach

For arriving at the ratings, ICRA has consolidated the financials of VST Motors and its two subsidiaries – V.S.T. & Sons Pvt. Ltd. and V.S.T. Auto Parts Pvt. Ltd. – as well as Chennai Auto Agency Private Limited. This is because all the four entities form a part of the same Group and operate in the similar lines of businesses of automobile dealership and affiliated services. Further, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Ratings: A note on Methodology](#)

[Rating methodology on Automobile Dealerships](#)

[Financial Consolidation and Rating Approach](#)

About the company

Incorporated in 1949, VST Motors is the flagship company of the VST Group. It is one of the largest automotive dealers of TML's CV for Tamil Nadu and Pondicherry. It has showrooms in several districts of Tamil Nadu, including Salem, Nammakal, Hosur, Trichy, Vellore, Cuddalore and Pondicherry.

VST Motors has two wholly-owned subsidiaries – VST Auto Parts Private Limited and VST and Sons Private Limited. VST Auto Parts is the authorised dealer for spare parts sales of TML, Mahindra & Mahindra Limited and Ford India Limited. VST and Sons Private Limited is the sole authorised dealer for sale and service of Jaguar and Land Rover (JLR) vehicles and spare part supplies for Tamil Nadu.

As per provisional financials, VST Motors incurred net loss of Rs 4.19 crore on a total operating income of Rs. 527.52 crore in FY2017 compared with a net profit of Rs. 1.13 crore on a total operating income of Rs.578.87 crore in the previous financial year.

At the consolidated level, VST Group achieved a net profit of Rs. 3.23 crore on a total operating income of Rs. 1,091.18 crore in FY2017 compared with a net profit of Rs. 7.77 crore on a total operating income of Rs. 1,075.56 crore in the previous financial year, as per the provisional financial statements.

Standalone	FY2015	FY2016	FY2017 (unaudited)
Operating income (Crores)	552.59	578.87	527.52
PAT (Crores)	(0.09)	1.13	(4.19)
OPBDIT/ OI (%)	1.1%	1.7%	1.3%
RoCE (%)	4.4%	6.4%	2.5%
Total Debt/ TNW (times)	3.87	3.84	5.08
Total Debt/ OPBDIT (times)	22.36	14.23	22.81
Interest coverage (times)	0.88	0.95	0.76
NWC/ OI (%)	16.0%	13.0%	14.8%

Consolidated	FY2015	FY2016	FY2017 (unaudited)
Operating income (Crores)	1,009.88	1,075.56	1,091.18
PAT (Crores)	6.15	7.77	3.23
OPBDIT/ OI (%)	2.40%	2.00%	2.40%
RoCE (%)	9.40%	10.10%	-
Total Debt/ TNW (times)	1.92	2.1	-
Total Debt/ OPBDIT (times)	6.47	8.62	-
Interest coverage (times)	2.25	1.43	-
NWC/ OI (%)	13.20%	14.50%	-

Source: Financial Statements of VST Motors and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years
Table

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July , 2017	May , 2016		
1	Cash Credit	Long Term	35.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Channel finance	Long Term	30.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	35.00	[ICRA]BBB (Stable)
Channel finance	-	-	-	30.00	[ICRA]BBB (Stable)

Source: VST Motors Private Limited

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About ICRA Limited:

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