

Varun Motors Private Limited

April 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	168.00	168.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Non Fund Based Limits	27.00	27.00	[ICRA]A2 reaffirmed
Total	195.00	195.00	

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 168.00 crore¹ fund-based cash credit limits of Varun Motors Private Limited (VMPL or the company)². ICRA has reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs 27.00 crore non-fund based limits of VMPL. The outlook on the long-term rating is 'Stable'.

Rationale

For arriving at the ratings, ICRA has combined the business and financial risk profiles of VMPL and its group company, Varun Motors (VM), given their common promoters and the same line of business.

The rating upgrade factors in consistent growth in revenues at a CAGR of 15.42% over the last three years from Rs 1424.78 crore in FY2015 to Rs 2261.54 crore in FY2017 and to Rs 2008.18 crore in 11MFY2018 backed by increase in the sales volume of Maruti Suzuki India Limited (MSIL) cars on the back of addition of new sales outlets by VMPL along with increase in average realization per vehicle of MSIL, increased sale from Bharat Benz dealership; and improved financial risk profile with gearing decreasing to 1.60 times as on February 28, 2018, interest coverage of 3.60 times for 11MFY2018 on account of reduced interest rates coupled with lower working capital utilization in last 12 months. The ratings also factor in strong credentials of VMPL as one of the largest dealer of MSIL in Andhra Pradesh and Telangana and its wide network with around 55 showrooms, service centers and true value outlets across Andhra Pradesh, Telangana and Karnataka states.

The ratings, however, are constrained by low profitability as margins on vehicles, spares, service and accessories are all controlled by MSIL; high competitive intensity from dealers of other Original Equipment Manufacturers (OEMs) resulting in increased pressure to pass on price discounts to customers and high geographic concentration risk with majority of its revenue from Andhra Pradesh and Telangana states. ICRA also notes that VMPL received the MSIL's dealership in Bangalore in FY2016 which has partly reduced the geographical concentration risk of revenues.

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

Outlook: Stable

The stable outlook reflects ICRA's belief that Varun Motors Private Limited will continue to benefit from the extensive experience of its promoters in the automobile dealership business coupled with market leadership of MSIL. The outlook may be revised to 'Positive' if there is substantial growth in revenues, improved operating margins and improved capital structure. The outlook may be revised to 'Negative' if there is decline in revenue, dip in operating margins, weakening of liquidity position and deterioration of capital structure.

Key rating drivers

Credit strengths

Authorized dealer of MSIL and Bharat Benz: VMPL has strong credential as one the largest dealer of passenger vehicles of MSIL in Andhra Pradesh and Telangana. The company sold 31097 vehicles in FY2017 and 28484 vehicles in 11MFY2018. VMPL is also the authorized dealer of Bharat Benz for 11 districts of Andhra Pradesh.

Wide sales network: VMPL has wide sales network of MSIL's dealership with around 55 showrooms, service centers and true value outlets spread across Andhra Pradesh, Telangana and Karnataka covering Hyderabad, Ranga Reddy, Kamareddy, Medak, Sangareddy, Vikarabad, Nizamabad, Krishna, Khotagudam, Vishakhapatnam, Vizianagaram and Srikakulam districts, and Bangalore.

Strong growth in revenues: The operating income has witnessed consistent increase over the last three years at a CAGR of 15.42% from Rs 1424.78 crore in FY2015 to Rs 2008.18 crore in 11MFY2018 owing to increase in sale volumes and increase in realisation per vehicle of both MSIL and Bharat Benz dealership over the years.

Improved financial risk profile – As on February 28,2018, the debt levels reduced to Rs 213.87 crore and net worth levels improved to Rs 133.28 crore and resulting in improved gearing to 1.60 times. Further, the interest coverage improved to 3.60 times for 11MFY2018 on account of reduced interest rates coupled with lower working capital utilization in last 12 months due to lower inventory levels.

Credit weaknesses

Thin margins and low bargaining power: The operating margins are low on account of dealership industry dynamics and margins on vehicles, spares, service and accessories are mostly controlled by principal. Vehicle sales is the main revenue driver for VMPL accounting for ~83% of the net income and others (spares, service, accessories and other income) account for 17% for 11MFY2018. The profit margins are higher in case of sale of spares and service income compared to vehicle sales.

High competitive intensity and regional concentration of sales: VMPL faces competition from dealers of other Original Equipment Manufacturers (OEMs) for both MSIL and Bharat Benz dealership business resulting in increased pressure to pass on price discounts to customers. The sales are mainly generated from Andhra Pradesh, Telangana states and Bangalore.

High geographic concentration risk: High geographic concentration risk with majority of its revenue from Andhra Pradesh and Telangana states; however, VMPL received the MSIL's dealership in Bangalore in FY2016 which has partly reduced the geographical concentration risk of revenues

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Automobile Dealerships](#)

About the company:

Incorporated in 1996, Varun Motors Private Limited (VMPL) is involved in the business of automobile dealership. The company is the dealer of Maruti Suzuki India Limited (MSIL) across Andhra Pradesh, Telangana and Karnataka covering Hyderabad, Ranga Reddy, Kamareddy, Medak, Sangareddy, Vikarabad, Nizamabad, Krishna, Khotagudam, Vishakhapatnam, Vizianagaram and Srikakulam districts, and Bangalore with around 55 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 a Bharat Benz dealer for 11 districts in Andhra Pradesh.

VM&VMPL at consolidated levels reported an operating income of Rs. 2825.46 crore and profit after tax of Rs. 33.56 crore in FY2017.

Key Financial Indicators

	Varun Motors Private Limited		
	FY2016	FY2017	11MFY2018
Operating Income (Rs. crore)	1,843.69	2,261.54	2,008.18
PAT (Rs. crore)	13.21	27.25	26.44
OPBDIT/ OI (%)	3.42%	3.75%	3.55%
RoCE (%)	20.58%	23.69%	19.71%
Total Debt/ TNW (times)	2.78	2.00	1.60
Total Debt/ OPBDIT (times)	3.51	2.52	2.75
Interest coverage (times)	1.90	2.74	3.60
NWC/ OI (%)	11%	10%	10%

Source: Annual Reports and ICRA Research

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				April 2018	July 2017	-	February 2016
1	Fund Based – Cash Credit Limits	168.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Non Fund Based- Bank Guarantee	27.00	-	[ICRA]A2	[ICRA]A2	-	[ICRA]A2

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				168.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee				27.00	[ICRA]A2

Source: Varun Motors Private Limited

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