

January 31, 2020

V.S.T. Motors Private Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital Facilities	65.0	65.0	[ICRA]BBB reaffirmed; outlook revised to Negative from Stable
Total	65.0	65.0	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has taken consolidated view of V.S.T. Motors Private Limited (VSTM) and its two subsidiaries, V.S.T. And Sons Private Limited (VST&S) and V.S.T. Auto Parts Private Limited (VSTAPPL), as well as Chennai Auto Agency Private Limited (CAAPL) (hereafter referred to as the Group) as all the four entities are part of the same Group and operate in the similar line of business of automobile dealership and affiliated services.

The revision in outlook for the rating factors in the continued subdued demand scenario in the automobile sector, which is likely to result in a decline in the Group's sales and profitability in FY2020. In 9M FY2019, the Group's sales volume in commercial vehicles (CV) and passenger vehicles (PV) segments declined by 13% and 29%, YoY respectively, and the sales volume is expected to remain under pressure in the near term as well. Hence, ICRA expects the Group's profitability to decline in FY2020 on account of lower absorption of fixed overheads. Going forward, demand scenario in the automobile industry (both CV and PV) and the Group's sales volumes and profitability will be the key rating monitorable.

The rating continues to derive comfort from the six-decade long experience of the Group's promoters in the automobile dealership business, and their strong foothold in Tamil Nadu (TN) as an authorised dealer for various renowned Original Equipment Manufacturers (OEMs) namely Tata Motors Limited (TML), Ford India Limited (Ford) and Jaguar and Land Rover (JLR). The rating also favourably factors in the geographical diversification with a wide network of sales showrooms spread across various districts of Tamil Nadu. Besides, the rating continues to derive comfort from the Group's comfortable liquidity profile with adequate buffer in various credit lines. ICRA also notes the ongoing commercial real estate project, which is expected to result in incremental income to the Group from FY2021. These apart, the rating also factors in the Group's strategic investment (market value of around Rs. 49.2 crore as on date) in its related concern, V.S.T. Tiller Tractors Limited ([ICRA]AA-(Stable)/A1+). However, the rating is tempered by its stretched capital structure and increase in repayment obligations in the near term, which is likely to weaken the coverage metrics. ICRA also notes the increased competition in both CV and PV spaces in Tamil Nadu with addition of new dealers in the recent past.

Key rating drivers and their description

Credit strengths

Long presence of promoters in the automobile dealership business – The VST Group is in existence for more than five decades in the automobile dealership space in Tamil Nadu. The promoters are the authorised dealers of various reputed OEMs namely TML, JLR and Ford India Limited. Another group concern - V.S.T. Tillers Tractors Limited, a public-listed company where VSTM has a 4.13% holding (which has a market value of ~Rs. 49 crore), has a total market valuation of around Rs. 1,170.0 crore is involved in manufacturing of tractors and tillers. The promoters also operate showrooms of Mahindra & Mahindra and other OEMs through other related concerns both in Tamil Nadu and Karnataka. With a

diversified business portfolio, the Group is well placed to face the challenges associated with decline in sales volumes in any segment. The Group was supported with Rs. 20 crore of NCD from V.S.T. Tillers to fund the commercial property project. Further, the promoters have also extended support in the form of a loan in the past to fund the capex and working capital requirements.

Key dealer for TML in TN – VSTM has strong association with TML, the market leader in the domestic commercial vehicle (CV) space. VSTM has been an authorised dealer for TML’s CV vehicles in TN for more than five decades. VSTM has 17 showrooms spread across Pondicherry and nine districts of TN which includes Chennai, Salem, Nammakal, Hosur, Trichy, Vellore, Cuddalore, Villupuram and Pudukkottai. It also includes five service and spares sales outlets across TN for TML. In FY2020, VSTM has also been made an authorised dealer of Kia Motors and has started sales from September 2020. It has three showrooms for Kia in Chennai, Salem and Vellore. VSTAPPL is the sole authorised dealer of PV auto parts of TML in TN and one of the two authorised dealers of TML’s CV auto parts in TN. VSTAPPL currently has 28 sales outlets across TN and Karnataka. Also, VST&S is the sole authorised dealer for JLR in TN and has two showrooms in Chennai and one in Coimbatore. CAAPL is an authorised dealer for Ford PV and currently has two showrooms and four service stations in Chennai.

Rental income from commercial real estate to support profitability – VSTM has been constructing a commercial building in Mount Road, Chennai next to its existing showroom at a project cost of Rs. 58 crore. The ground floor will serve as showroom for Kia and JLR and the remaining floors of the building have been rented out as office space. The revenue from the leasing operations is expected to commence from August 2020 and the same is likely to add Rs. 9-12 crore of revenue to the Group and also improve its profitability from FY2021.

Credit challenges

Subdued auto sector demand – The automobile segment has witnessed a steep decline in demand in FY2020. The sluggish demand is on account of subdued consumer sentiments, tightened financing environment, deferment in purchases by consumers in anticipation of steep discount ahead of BS-VI rollout and slowdown in infrastructure projects. This has adversely impacted the sales revenue and profitability of automobile dealers (both PV and CV segments) in the current year.

Pressure on sales volume and profitability in FY2020 – The Group’s revenue declined in 9M FY2020 due to a slowdown in the automobile industry, which resulted in decline in sales volume across all vehicle segments, which resulted in a decline in profitability on account of lower absorption of fixed overheads. Further, with rollout of BS-VI vehicles from April 2020, the dealers are burdened with the clearance of BS-IV inventory, which is expected to further squeeze its profit margins in the current year. ICRA expects the overall operating margins to decline by around 60 bps in the current financial year.

Increased competition in the business – Though VSTAPPL is the exclusive dealer of TML’s PV spare parts in TN, it faces competition in TML’s CV spare segment in the state where it competes with another dealer. Further, the Group faces increased competition in the CV space in TN due to addition of new dealers in the last two fiscals, and in the PV space with addition of a new Ford dealer in Chennai in FY2018. VST&S is sole authorised dealer of JLR in TN. However, it faces competition from other luxury brand vehicles.

Stretched capital structure; likely pressure in debt protection metrics due to high repayment obligations – The Group’s gearing remained stretched in FY2019 with Total debt/OPDITA and TOL/TNW at 6.1 times and 2.3 times, respectively against 6.5 times and 2.4 times in FY2018. However, ICRA notes that Rs. 49.4 crore of debt out of Rs. 227.1 crore of total debt as on March 31, 2019 is from the promoters. Further the DSCR remained low at 1.1 times in FY2019 against 1.2 times in FY2018. Nonetheless, the adjusted DSCR has improved in FY2019 to 1.9 times from 1.8 times in the previous year. If the subdued demand trend continues, the debt protection metrics is likely to weaken further on account of elevated repayments in the medium term. Revival in sales volume and profitability will be crucial to improve the Group’s debt protection metrics.

Liquidity position: Adequate

The Group's liquidity profile is adequate, supported by healthy buffer in working capital limits, further supported by a free cash balance of Rs. 16.60 crore as on March 31, 2019. The Group has a comfortable buffer in its working capital borrowing limits with an average utilisation of 64% in the last 12 months ended December 2019. The Group is likely to have elevated repayment obligations in the near term. However, ICRA expects the Group to have adequate cash accruals to meet its repayment obligations.

Rating sensitivities

Positive triggers – The outlook may be revised to Stable if sales volume improves, backed by improvement in demand scenario in the automobile sector (both CV and PV), resulting in an improvement of profitability and debt-protection metrics.

Negative triggers – The ratings may be downgraded 1) if the subdued demand trend in the automobile sector continues, resulting in weaker-than-expected sales and profitability or 2) if the Group extends additional support to other related concerns, resulting in deterioration of liquidity profile or 3) if there is any further delay in commencement of leasing operation in the commercial property.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial consolidation and Rating approach Rating Methodology for Entities in the Automobile Dealership Industry
Parent/Group Support	NA
Consolidation/Standalone	ICRA has taken a consolidated view of V.S.T. Motors Private Limited and its two subsidiaries, V.S.T. And Sons Private Limited and V.S.T. Auto Parts Private Limited, as well as Chennai Auto Agency Private as all the four entities are part of the same Group and operate in the similar line of business of automobile dealership and affiliated services. Details of consolidation is given in Annexure-2.

About the company

Incorporated in 1949, VSTM is one of the largest authorised automobile dealers for CV of TML and PV of Kia Motors in TN. VSTM has 17 showrooms spread across Pondicherry and nine districts of TN, which includes Chennai, Salem, Nammakal, Hosur, Trichy, Vellore, Cuddalore, Villupuram and Pudukkottai. This includes five sales, service, spare parts outlets across TN for TML. It has three showrooms for Kia in Chennai, Salem and Vellore. VSTM is involved only in sale of CV while the service of CV is undertaken by its Group concerns namely VST Service Station Private Limited (VSTSSPL) and VST Service Station, Salem. VSTSSPL is a wholly-owned subsidiary of VSTM and is involved in providing service of TML's CV and PV for Chennai region, while VST Service Station, Salem, a partnership firm in which VSTM is a partner is engaged in providing service of TML's CV for Salem, Trichy, Cuddalore and Vellore regions.

VSTM is the flagship company of the Group and has five wholly-owned subsidiaries namely VSTAPPL ([ICRA]BBB (Negative)) (authorised dealer for TML's CV and PV spare parts in TN), VST&S ([ICRA]BBB(Negative)) (authorised dealer for Jaguar Land Rover India Limited), V.S.T Titanium Motors Private Limited (authorised dealer for Benz cars in Chennai), V.S.T Auto Agency Private Limited (VSTAAPL) (engaged in servicing of TML's PV vehicles in Trichy) and VSTSSPL. With effect from April 1, 2017, both VSTAAPL and VSTSSPL were merged with VSTM after discontinuing the service segment for PV and transferring the service segment for CV to V.S.T Service Station, Salem, a partnership firm in which VSTM is a partner.

The VST Group also includes V.S.T Tillers Tractors Limited ([ICRA]AA-(Stable)/A1+), a public-listed company that has a total market valuation of around Rs. 1,170.0 crore, is involved in the manufacturing of tractors and tillers. Further, promoters also operate showroom of Mahindra & Mahindra and other OEMs through other related concerns both in Tamil Nadu and Karnataka.

Key financial indicators (audited) - Standalone

	FY2018	FY2019
Operating Income (Rs. crore)	456.1	593.9
PAT (Rs. crore)	3.1	7.2
OPBDIT/OI (%)	3.3%	3.0%
RoCE (%)	8.6%	11.9%
Total Outside Liabilities/Tangible Net Worth (times)	3.1	3.1
Total Debt/OPBDIT (times)	6.9	8.5
Interest Coverage (times)	2.1	2.2
DSCR	1.0	0.8

Key financial indicators (audited) – Consolidated*

	FY2018	FY2019
Operating Income (Rs. crore)	937.4	1085.7
PAT (Rs. crore)	5.7	13.6
OPBDIT/OI (%)	3.1%	3.4%
RoCE (%)	8.5%	11.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.3
Total Debt/OPBDIT (times)	6.5	6.1
Interest Coverage (times)	2.1	2.5
DSCR	1.2	1.1

*Full consolidation of VSTM, VSTAPPL, VST&S and CAAPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017	
					31-Jan-2020	05-Oct-2018	21-Jul-2017	27-Jun-2017	24-May-2016	27-Apr-2016
1	Cash Credit	Long Term	65.0	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	65.00	[ICRA]BBB(Negative)

Source: VSTM

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
V.S.T. Motors Private Limited	-	Full Consolidation
V.S.T. Auto Parts Private Limited	VSTM has 100.00% holding in VSTAPPL	Full Consolidation
V.S.T. And Sons Private Limited	VSTM has 100.00% holding in VST&S	Full Consolidation
Chennai Auto Agency Private Limited	-	Full Consolidation

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