

## VVC Motors Pvt. Ltd.

January 10, 2019

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	30.00	[ICRA]BBB(Stable); Assigned
Short Term –Non-Fund Based	5.00	[ICRA]A3+; Assigned
Long Term / Short Term – Unallocated	5.00	[ICRA]BBB(Stable)/[ICRA]A3+; Assigned
<b>Total</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings favourably factors in the extensive experience of the promoters spanning over three decades in the automobile dealership industry with presence across two-wheeler (2W), three-wheeler (3W), commercial vehicle (CV), passenger vehicle (PV) and farm equipment segment since 1986. The ratings note the established position of VVC Motors Pvt. Ltd. (VVC) as dealer of Mahindra & Mahindra Limited (M&M) in Nalgonda, Khammam, Hyderabad, and Ranga Reddy districts of Telangana state. Further, VVC is the sole dealer for Nalgonda and Khammam districts and has 17 outlets spread across the four districts. The ratings also consider the expected improvement in VVC's revenues and margins in FY2019 with the company likely to supply 1100 good carrier vehicles to Telangana State Fishermen Coop. Societies Federation Ltd. (TSFCSF).

The ratings, however, are constrained by VVC's inherently low profitability indicators in the auto dealership business, high gearing levels resulting from dependence on working capital borrowings for maintaining vehicle inventories and moderate debt coverage indicators owing to low margins and cash accruals. The ratings are also constrained by the stiff competition in the PV and CV market in India and the company's moderate liquidity profile.

### Outlook: Stable

The Stable outlook reflects ICRA's belief that VVC will continue to benefit from the company's established position and the extensive experience of its management in the automobile dealership industry. The outlook may be revised to Positive if better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

### Key rating drivers

#### Credit strengths

**Extensive experience of promoters in the automobile dealership industry:** VVC's operations are overseen by its Managing Director, Mr. V. V. Rajendra Prasad, who has been involved in the automobile industry for 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 in four districts of Telangana:** Incorporated in 2009, VVC is an automobile dealership 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 of Telangana.

**Dominant market position of M&M in UV segment:** M&M has a dominant market share in the UV segment in India, though it has witnessed a decline in its UV market share post slew of sub-4 meter UV launches by competitors. M&M also maintained a strong position in the pickup segment with a market share of 47.4% in sub-3.5T (goods) segment in FY2018. The company's revenues are expected to increase going forward on the back of new launches planned by M&M over the near term and supply of 1100 good carrier vehicles to TSFCSF. In FY2019, M&M will be launching three new models, which should support growth in its UV sales.

## Credit challenges

**Intense competition in the automobile dealership business:** The company faces competition from other M&M's dealers and dealers of other original equipment manufacturers (OEM) present in its territory exerting pressure on its sales volume and margins. The competition has intensified over the years, due to increasing presence of compact UVs from other OEMs adversely impacting the demand for M&M's UVs. Further, the competition for the LCV segment (sale of Bolero Pick-up) has also increased with product launches by other OEMs recently.

**Thin margins and low bargaining power owing to dealership nature of operations:** The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. Inherently low value addition and intense competition in the auto dealership business has resulted in low operating margins for VVC.

**Leveraged capital structure and moderate coverage indicators:** The capital structure is leveraged with a gearing of 2.72 times in FY2018 owing to high debt levels with a debt profile mainly dominated by working capital borrowings. The coverage indicators remained moderate with OPBDITA/Interest of 3.17 times and TD/OPBDITA of 5.20 times in FY2018. With no debt-funded capex planned in the near term and no external term debt, VVC's financial risk profile is expected to improve given its stable accruals.

## Liquidity position

VVC's liquidity position remains moderate as evident from 90% average utilisation of fund-based limits between August 2017 and November 2018. VVC enjoys interest-free trade finance facility from Mahindra and Mahindra Financial Services Limited, which has helped in limiting its dependence on the working capital financing from banks. Its business involves low usage of non-fund based limits resulting in a low encumbered cash of Rs. 1.06 crore as margin money. Further, the company has free cash and bank balance of Rs. 2.74 crore as on March 31, 2018.

## 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 Industry</a>
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the company.

## About the company

Incorporated in 2009, VVC is an automobile dealer of M&M's PVs, CVs, and 3Ws in Hyderabad, Khammam, Nalgonda and Ranga Reddy districts of Telangana. VVC's operations are overseen by its Managing Director, Mr. V. V. Rajendra Prasad, who is a post graduate in law and has been involved in the automobile industry for past three decades. VVC has 17 outlets spread across four districts of Telangana.

In FY2018, the company reported a net profit of Rs. 3.00 crore on an operating income (OI) of Rs. 298.2 crore, as compared to a net profit of Rs. 3.40 crore on an OI of Rs. 335.8 crore in the previous year.

### Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	335.8	298.2
PAT (Rs. crore)	3.4	3.0
OPBDIT/OI (%)	2.56%	2.80%
RoCE (%)	17.01%	13.40%
Total Debt/TNW (times)	2.93	2.72
Total Debt/OPBDIT (times)	4.42	5.20
Interest Coverage (times)	3.13	3.17

**Status of non-cooperation with previous CRA:** 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 to review the ratings.

**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
1	Fund Based/ CC	30.00	-	Jan 2019 [ICRA]BBB(Stable)	-	-	-
2	Non-Fund Based	5.00	-	[ICRA]A3+ (Stable)	-	-	-
3	Unallocated Limits	5.00	-	[ICRA]BBB(Stable)/ [ICRA]A3+	-	-	-

### 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](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	20.00	[ICRA]BBB(Stable)
NA	Channel Finance	NA	NA	NA	10.00	[ICRA]BBB(Stable)
NA	Bank guarantee	NA	NA	NA	5.00	[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	5.00	[ICRA]BBB(Stable)/ [ICRA]A3+

Source:VVC Motors Private Limited

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

Not Applicable

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