August 02, 2021

V.S.T. And Sons Private Limited: Rating reaffirmed at [ICRA]BBB; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – CC	44.00	44.00	[ICRA]BBB; reaffirmed and outlook revised to Stable from Negative
Long term – Term Loan	1.00	1.00	[ICRA]BBB; reaffirmed and outlook revised to Stable from Negative
Total	**45.00**	**45.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of V.S.T. Motors Private Limited (VSTM) and its two subsidiaries, V.S.T. Auto Parts Private Limited (VSTAPPL) and V.S.T. And Sons Private Limited (VST&S), as well as Chennai Auto Agency Private Limited (CAAPL) (henceforth known as Group/VST Group), as all the four entities have common promoters/management and operate in the similar line of business of automobile dealership and affiliated services.

The revision in the outlook factors in the Group's better-than-expected performance in FY2021 and healthy liquidity position, with cash, bank balance and liquid investment of Rs. 39.2 crore as on June 30, 2021 and comfortable buffer available in working capital (WC) limits (with average utilisation at 31% against sanctioned limits of Rs. 186.2 crore). The revenues are expected to witness healthy improvement in FY2022, with the anticipated healthy recovery in commercial vehicle (CV) and passenger vehicle (PV) segments albeit the low base in FY2021, despite some setback due to the second wave of the Covid-19 pandemic, supply chain disruptions and commodity price headwinds. The VST Group witnessed improvement in margins in FY2021 with OPM at 4.5% (based on provisional financials; PY: 2.9%), in spite of the decline in topline, supported by the cost rationalisation efforts taken during the pandemic and the stable rental income from its commercial property.

The rating continues to derive comfort from the established presence of the Group in the automobile dealership business, for over six decades, with a diversified portfolio and their strong foothold in Tamil Nadu (TN) as an authorised dealer for various renowned original equipment manufacturers (OEMs), namely Tata Motors Ltd. (TML) (for CV segment), Kia Motors (Kia), Ford and Jaguar and Land Rover (JLR). These apart, ICRA notes the Group's strategic investment (market value of around Rs. 72.2 crore as on July 30, 2021) in its Group company, V.S.T. Tiller Tractors Limited ([ICRA]AA- (Stable)/A1+) and history of timely fund infusions from the promoters in the past through unsecured loans and deposits, when needed by the Group.

The rating, however, is tempered by the Group's thin margins from CV and PV sales, inherent to the automobile dealership business due to stiff competition from the other dealers of principal OEMs as well as dealers of other competing OEMs which exerts pressure on its sales and profit margin. The Group is also exposed the inherent cyclicality in the CV industry, which contributed to 59% of its total vehicle sales revenue (in FY2021). The rating factors in the Group's moderate coverage metrics as indicated by interest coverage of 2.7 times and Net Debt[1]/OPBDITA of 3.5 times in FY2021 (based on provisional financials), with relatively high repayment obligations compared to anticipated accruals, over the medium term.

[1] **Net** debt = Total debt – unencumbered cash and liquid investments; As on March 31, 2021, based on provisional financials, the Group has total debt of Rs. 165.7 crore and unencumbered cash and liquid investments of Rs. 45.2 crore resulting in Net Debt of Rs. 120.5 crore

Key rating drivers and their description

Credit strengths

Established presence of VST Group in automobile dealership business; strong relationship with several key OEMs – The VST Group has presence of more than six decades in the automobile dealership space in Tamil Nadu. The promoters are the authorised dealers of various reputed OEMs, namely TML, JLR, Kia and Ford India Limited. VSTM has strong association with TML, the market leader in the domestic CV space. VSTM has been an authorised dealer for TML's CVs in Tamil Nadu for more than five decades. ICRA also notes the history of timely fund infusion from the promoters in the past in the form of unsecured loans, when needed by the Group.

Diversified portfolio with presence across value chain and tie-ups with multiple OEMs – The Group has presence across the value chain with revenue derived from CVs, PVs and spare parts sales. The Group sells spares and auto parts under VSTAPPL, which is one of the two authorised dealers of TML's CV auto parts in TN. It also has a diversified portfolio through tie-ups with multiple OEMs. VSTM is an authorised dealer for TML's CVs in TN. The Group has dealerships for Ford and Kia in the PV segment and the same are sold under CAAPL and VSTM, respectively. The Group also has presence in the luxury cars segment with VST&S being the sole authorised dealer for JLR in TN. The Group's diversified business portfolio, mitigates the risk associated with the inherent cyclicality in the automobile sector, to some extent.

Healthy recovery expected in CV and PV segments in FY2022 despite some setback due to second wave of Covid-19 – The Group recorded a YoY decline in sales revenue by 24.3% in FY2021, due to loss of sale in Q1 FY2021 on account of the complete lockdown. However, its sales witnessed a sequential recovery during Q2 – Q4 FY2021, supported by revival in demand. In FY2021, the CV sales volume dipped by 35%, on a YoY basis, while the reduction in PV volumes was capped at 5%, on a YoY basis, owing to improved sales from the Kia segment (albeit a low base in FY2020, since Kia segment commenced operation from September 2020).

ICRA expects the domestic PV and CV segments to witness a healthy YoY growth in FY2022. The recovery has been delayed by the second wave of Covid-19 pandemic in Q1 FY2022 and consequent lockdowns in May 2021. Nonetheless, the volumes in Q1 FY2022 were better, on a YoY basis, due to complete lockdown in Q1 FY2021. For the Group, both the CV and PV volumes improved substantially by 766% and 280%, respectively, in Q1 FY2022 on a YoY basis. However, the same has weakened on a sequential basis due to the lockdown. While revenue is expected to improve sequentially in subsequent quarters, chances of a further Covid-19 wave and spike in infections, supply chain disruptions and commodity price headwinds pose downside risks to the estimates.

Rental income from commercial real estate supports profitability; adequate liquidity position – VSTM has constructed a commercial building on Mount Road, Chennai, at a project cost of around Rs. 58 crore. The ground floor serves as a showroom for Kia and JLR and the remaining floors of the building have been rented out as office space. The Group started booking rental income from the leasing operations from July 2020 (~Rs. 1 crore per month). The same has supported the Group's profit margins and accruals in FY2021, while the other segments (vehicle dealership, spares sales and service) witnessed a steep decline in sales. On the back of healthy accruals from operations and improved inventory management in FY2021, the Group's liquidity position is healthy with cash, bank balance and liquid investment of Rs. 39.2 crore as on June 30, 2021 and comfortable buffer available in WC limits (with average utilisation at 31% against sanctioned limits of Rs. 186.2 crore). Going forward, relatively stable rental income is expected to support its cash accruals during the downcycles in the auto industry.

Credit challenges

Thin margins inherent to dealership business; intense competition – The Group's profit margins have historically been thin, given the nature of the dealership business due to low bargaining power of the dealer, as margins on vehicles are determined by the principal OEMs. Further, intense competition from dealers of the principal OEM and other OEMs' dealers also puts pressure on the margins. VSTAPPL faces competition from one other dealer in TML's CV spare segment in TN. The Group faces increased competition in the CV space in TN dealers of other OEMs such as Ashok Leyland Limited and Mahindra and Mahindra and from TML's other dealers. In the PV space, apart from other OEM dealers, Ford segment faces competition from two other Ford dealers and Kia segment from three other Kia dealers in Chennai. VST&S is the sole authorised dealer of JLR in Tamil Nadu, however, it faces competition from other luxury brand vehicles.

Revenues exposed to cyclicality inherent to the CV industry – The Group derives 43% of its total revenue and 59% of its vehicle sales revenue from the CV segment (in FY2021), which exposes its revenues to the inherent cyclicality in CV industry. The domestic CV industry witnessed a downcycle till FY2020, and its sales continued to remain under pressure due to the pandemic and the consequent lockdown in H1 FY2021. However, significant improvement in sales were witnessed in H2 FY2021. ICRA expects healthy growth of 21-24% for the CV segment in FY2022 and this is expected to reflect in the Group's sales as well. Nonetheless, the recovery to FY2019 volumes would remain sometime away.

Moderate debt coverage metrics due to relatively high repayment obligations – The Group's coverage metrics have improved in FY2021, due to enhanced OPM. Nevertheless, the same remained moderate with interest coverage of 2.7 times (PY: 1.9 times) and Net Debt[2]/OPBDITA of 3.5 times (PY: 4.1 times) in FY2021 (based on provisional financials). However, ICRA notes that Rs. 45.1 crore, out of Rs. 165.7 crore of total debt as on March 31, 2021, is unsecured loan and FD from the promoters. The Group only has external long-term borrowings (including debenture and term-loans) of Rs. 50.9 crore as on March 31, 2021. The Group's repayment obligations are expected to remain relatively high in the range of Rs. 11.5 – 12.5 crore per annum over the medium term. Nonetheless, the Group has comfortable cash, bank balance and liquid investments of Rs. 39.2 crore as on June 30, 2021. Further, the Group is likely to generate healthy accruals from business, supported to an extent by the relatively stable rental income.

Liquidity position: Adequate

The Group's liquidity position is **adequate** with positive retained cash flow in FY2021. The Group has cash, bank balance and liquid investments of Rs. 39.2 crore as on June 30, 2021. It also has comfortable buffer available in working capital borrowing with average utilisation at 31% (against sanctioned limits of Rs. 186.2 crore) during the 12-month period that ended in June 2021. These apart, ICRA notes the Group's strategic investment (market value of around Rs. 72.2 crore as on July 30, 2021) in its Group company, V.S.T. Tiller Tractors Limited ([ICRA]AA-(Stable)/A1+). In relation to these sources of cash, the Group has relatively high repayment obligations compared to anticipated accruals over the medium term with repayments Rs. 11.5 – 12.5 crore per annum during FY2022-FY2024. The Group also has proposed capex plans of Rs. 5 crore in FY2022 and FY2023, which is expected to be funded through internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if the Group demonstrates a healthy revenue growth, while sustaining healthy margins. Specific credit metric that could lead to an upgrade is interest coverage ratio of more than 3.0 times on a sustained basis.

Negative factors – The rating may be downgraded if significant decline in scale of operations or profitability, due to subdued demand, leads to pressure on cash accruals and debt metrics or if the Group extends additional support to other related concerns, resulting in a deterioration of the liquidity profile.

[2] Net debt = Total debt – unencumbered cash and liquid investments; As on March 31, 2021, based on provisional financials, the Group has total debt of Rs. 165.7 crore and unencumbered cash and liquid investments of Rs. 45.2 crore resulting in Net Debt of Rs. 120.5 crore

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Automobile Dealership Industry Rating approach - Consolidation
Parent/Group Support	NA
Consolidation/Standalone	ICRA has taken consolidated view of VSTM and its two subsidiaries, VSTAPPL and VST&S, as well as CAAPL as all the four entities have common promoters/management 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 CVs of TML and PVs of Kia Motors in Tamil Nadu. VSTM has 15 showrooms spread across Pondicherry and nine districts of Tamil Nadu. It has three showrooms for Kia located in Chennai, Salem and Vellore. VSTM offers service for TML's CVs and PVs for the Chennai region, while VST Service Station, Salem, a partnership firm in which VSTM is a partner, provides service for TML's CVs in Salem, Trichy, Cuddalore and Vellore regions.

VSTM has three wholly-owned subsidiaries namely, 1) VSTAPPL ([ICRA]BBB (Stable)), an authorised dealer for TML's CV spare parts in TN with 20 outlets, 2) VST&S ([ICRA]BBB (Stable)), sole authorised dealer for Jaguar Land Rover India Limited in TN with two showrooms located in Chennai and Coimbatore and 3) V.S.T Titanium Motors Private Limited, authorised dealer for Mercedes Benz cars in Chennai. The VST Group also has tie-ups with Ford India under the entity CAAPL, an authorised dealer for Ford cars in Chennai. Incorporated in 1997, CAAPL has three showrooms in Chennai offering sales, service and spare sales services (3S services) and one other service stations in the city.

The VST Group also includes V.S.T. Tillers Tractors Limited ([ICRA]AA-(Stable)/A1+), a public-listed company with a total market valuation of around Rs. 1,753 crore (as on July 30, 2021), is involved in the manufacturing of tractors and tillers. Further, the promoters operate showroom of Mahindra & Mahindra and other OEMs through other related concerns both in Tamil Nadu and Karnataka.

Key financial indicators (Audited)

Consolidated	FY2019	FY2020	FY2021 (Prov)
Operating Income (Rs. crore)	1076.6	1012.9	767.0
PAT (Rs. crore)	13.6	5.4	6.4
OPBDIT/OI (%)	3.5%	2.9%	4.5%
RoCE (%)	11.8%	7.6%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.4	-
Total Debt/OPBDIT (times)	6.1	5.3	4.8
Interest Coverage (times)	**2.4**	**1.9**	**2.7**
DSCR (times)	1.9	1.8	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

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 (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					02-Aug-2021	10-Nov-2020	31-Jan-2020	05-Oct-2018
1	Fund based-CC	Long Term	44.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	1.0	1.0	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based – CC	Simple
Long Term – Fund Based – TL	Simple

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

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	Fund based - CC	NA	NA	NA	44.0	[ICRA]BBB (Stable)
NA	Fund based - TL	Feb-2018	NA	Feb-2023	1.0	[ICRA]BBB (Stable)

Source: *Company*

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 99.7% holding in VSTAPPL	Full Consolidation
V.S.T. And Sons Private Limited	VSTM has 99.6% holding in VST&S	Full Consolidation
Chennai Auto Agency Private Limited	-	Full Consolidation

Source: *Company*

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