VCM Motors Agencies Private Limited

April 23, 2024

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	62.73	IVR BB/ Stable (IVR Double B with Stable outlook)	Assigned	Simple
Total	**62.73 (INR Sixty Two Crore and Seventy Three Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of VCM Motors Agencies Private Limited (VCM) derive strength from the established track record of operations and experienced management, steady improvement in its scale of operations and profits, and strong brand recognition of Jaguar Land Rover. However, these ratings strengths are partially constrained due to the inherently low profit margins, moderate financial risk profile and inadequate debt coverage indicators, intense competition and regional concentration of sales, working capital intensive nature of operations, and cyclical nature of automobile industry.

Rating Sensitivities

Upward Factors

- Improvement in debt protection metrics.
- Improvement in working capital cycle and liquidity position.

Downward Factors

- Significant reduction in scale of operations and profitability margins.
- Deterioration in debt protection metrics and overall gearing.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record of operations and experienced management

The Company commenced its operation in 2016 and has a successful track record of operation in Mumbai. The Company is a part of Modi Group, which has been into the automobile dealership business since 1952. Long experience of the promoters and its established track record of operations strengthens the operational risk profile of the company. The Company's strategies are shaped up by the Directors, Mr. Vikram Modi, Mr. Vivek Modi, Ms. Deepti Modi, and Ms. Swapna Shelar along with a team of experienced professionals.

Steady improvement in its scale of operations and profits

The TOI increased from Rs 136.36 crore in FY22 to Rs 167.58 crore in FY23 backed by higher realisations of cars sold. The company generated an absolute EBITDA of Rs. 10.32 crore in FY22. EBITDA for FY23 was Rs 10.94 crore. The EBITDA margin compressed from 7.57% in FY22 to 6.53% in FY23 because of higher discounts, higher manpower costs, and higher overhead costs in FY23 compared to FY22. The Company generated a PAT of Rs.1.83 crore in FY22, and Rs 2.46 crore in FY23. That was because of increased EBITDA and reduced interest charges in FY23. GCA of Rs 3.49 crore in FY22, and Rs 4.16 crore in FY23 were generated. The PAT margins improved from 1.34% in FY22 to 1.47% in FY23. Though the PAT margin improved marginally from FY22 to FY23, it continues to remain thin owing to the nature of industry.

Further, the company has generated a topline of Rs. 201.97 crore in H1FY24 as compared to Rs. 64.98 crore in H1FY23, witnessing a YoY growth of ~211%. The EBITDA witnessed a YoY growth of ~52% which increased from Rs. 5.35 crore in H1FY23 to Rs. 8.12 crore in H1FY24.

Strong brand recognition of Jaguar Land Rover

VCM Motors' principal, Jaguar Land Rover (JLR), is a strong player in the Indian premium cars segment. Thus, the demand of JLR cars across India is stable and the situation is the same in Mumbai – the financial capital of India. Therefore, it is safe to assume that barring any economic slowdown, growth of VCM Motors should be steady in the medium to long term.

Key Rating Weaknesses

Inherently low profit margins

Inherent to the automobile dealership business, the operating profit margins are thin with pressure to pass on commissions and price discounts to retail customers. Further, the operating profit margins in the auto dealership business remain under pressure as the price margins are decided by the OEMs (i.e., JLR). VCM Motors' profitability is also exposed to pricing pressure from other OEMs. The Company has been witnessing moderate pressure on EBIDTA margin over the years, it has deteriorated from 7.57% in FY22 to 6.53% in FY23. Further pressures are expected in the projected years because of continued higher discounts, however, economies of scale because of higher volumes and control over fixed costs may mitigate this. The PAT margins also remained very low in the range of 1.34%-1.47% between FY22 and FY23.

Moderate financial risk profile and inadequate debt coverage metrics

The financial profile of VCM Motors is characterised by high gearing of 3.17 times as on March 31, 2023 (PY 3.63 times) owing to high GECL - term loans and high utilisation of working capital borrowings and relatively low net worth of Rs.19.39 crore as on March 31, 2023 (PY Rs. 17.03 crore). The coverage indicators also remained stretched with interest coverage of 1.83 times and DSCR of 0.75 times in FY2023 owing to thin profitability. The shortfalls in GCA for servicing the debt repayment obligations were managed through working capital.

Intense competition and regional concentration of sales

VCM Motors' sales and profitability remain susceptible to intense competition from dealers of other OEMs in the regions. The dealers have to pass on additional benefits to customers to increase sales, owing to stiff competition from other manufacturers, which affects their profitability to an extent. The sales are regionally concentrated with its revenue derived from Mumbai region.

Working capital intensive nature of operations

Inventory management is crucial for VCM Motors as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage.

Instances of build-up of inventory normally take place during the year end in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Accordingly, the average inventory period of the company stood at around 84 days in FY23 (~105 days in FY22). Collection period was comfortable at 12 days in FY23 (24 days in FY22) as the debtors generally comprise of incentives receivable from Jaguar Land Rover. On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high.

Cyclical nature of automobile industry

The auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the movement in interest rates and fuel prices. A hike in interest rate, increases the costs associated with the purchase leading to purchase deferral. Fuel prices have a direct impact on the running costs of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The Company thus faces significant risks associated with the dynamics of the auto industry and the economic cycle.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook

Liquidity – Stretched

The liquidity profile of VCM is expected to remain stretched marked by its expected cash accruals of around ~Rs.7.54 crore in FY24 vis -a-vis its debt repayment obligation of Rs 9.54 crore in FY24. Expected Cash Flows in FY25 and FY26 comfortably cover the debt repayments in FY25 and FY26. The shortfall in cash flows in FY24 is expected to be covered up through sale of assets and working capital. The average working capital utilisation was moderate at 85% during the last 12 months ending in December 2023, which imparts low liquidity buffer.

About the Company

VCM Motors Agencies Private Limited is a part of the Modi Group, which has been in the automobile dealership business since 1952. The first dealership of Modi Group was that of Chevrolet cars in 1952, and the business was started by Mr. Chimanlal Modi. As of today, the Group has dealerships of Hyundai, Honda, Tata Motors, Jaguar and Land Rover housed under different companies within the Modi Group.

The key promoters of the Group and VCM Motors Agencies are Mr. Vikram Modi and Mr. Vivek Modi. Mr. Vikram Modi has an experience of 45 years in the auto dealership industry while Mr. Vivek Modi has an experience of 20 years in the same industry. Long experience of the key promoters have kept the Company in good stead over the years.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	136.36	167.58
EBIDTA	10.32	10.94
PAT	1.83	2.46
Total Debt	61.75	61.49
Tangible Net Worth	17.03	19.39
EBDITA Margin (%)	7.57	6.53
PAT Margin (%)	1.34	1.47
Overall Gearing Ratio (x)	3.63	3.17

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long Term	1.03	IVR BB/ Stable	-	-	-
2.	Dropline OD	Long Term	8.25	IVR BB/ Stable	-	-	-
3.	ODCC	Long Term	10.00	IVR BB/ Stable	-	-	-

4.	Inventory Funding	Long Term	43.45	IVR BB/ Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Shantanu Basu Tel: (033) 46022266 Email: shantanu.basu@infomerics.com	Name: Mr. Sandeep Khaitan Tel: (033) 46022266 Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy, or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Mar 2024	1.03	IVR BB / Stable
Dropline OD	-	-	Mar 2032	8.25	IVR BB / Stable
ODCC	-	-	-	10.00	IVR BB / Stable
Inventory Funding 1	-	-	-	9.45	IVR BB / Stable
Inventory Funding 2	-	-	-	14.00	IVR BB/ Stable
Inventory Funding 3	-	-	-	20.00	IVR BB/ Stable

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details: ttps://www.infomerics.com/admin/prfiles/Len-VCM-Motors-23apr24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com