VRP Telematics Private Limited

January 14, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	70.00 (Enhanced from 45.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	50.00 (Reduced from 95.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**120.00 (Rs. One Hundred Twenty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of VRP Telematics Private Limited (VRP) continue to derive strength from its resourceful promoters with experienced and professional management, tie ups with reputed brands for product distribution and robust network. The ratings also factor in satisfactory operational performance marked by stable scale of operations, moderate financial risk profile characterized by improvement in overall gearing and efficient working capital management. However, the rating strengths are partially off-set by low profitability margins inherent to the trading operations and fragmented and competitive nature of the industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial increase in scale of operations with PBILDT margin above 2.50% on a sustained basis.
- Improvement in return on capital employed above 20% on a sustained basis.
- Improvement in capital structure with overall gearing below 1.00x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Substantial decrease in scale of operations with PBILDT margin below 0.80% on a sustained basis.
- Deterioration in capital structure with overall gearing deteriorating to more than 2.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and professional management

VRP Telematics Private Limited (VRP) is promoted by Mrs. Benu Gupta, Mr. Devanshu Gupta, Mr. Sanjeev Gupta, Mr. Rajeev Gupta and Mr. Manish Gupta. The promoters of the company have an experience of more than 2 decades in managing various businesses through its group companies and is a part of Dev Priya Products Private Limited (rated CARE A-; Stable). The company is effectively managed by a team of professionals under the leadership of Mr. Sachin Thapar (CEO), an MBA from IIM Lucknow with an experience of over 20 years in IT, mobile and Consumer Electronics industry and looks after the overall operations of the company.

Robust distribution network coupled with tie ups with reputed brands

The company has partnered with various brands including Xiaomi, Apple, Cannon, Acer, and Eureka Forbes. Further, VRP has diversified its product portfolio by entering into consumer durable and IT business through tie-ups with brands including Asus, Wonder chef, Bajaj, Haier, Orient. The diversified portfolio thereby reduces its dependence on a single brand/product segment. The company has wide distribution network of over 700 direct distributors spread over 25 cities. However, VRP's venture into Korean fashion brand in FY20 could not gain much traction in the current year due to the outbreak of Covid-19 pandemic

Satisfactory operational performance

The company reported a marginal decline of ~6% in total operating income to Rs.1244.15 crore in FY20 (refers to the period from April 01 to March 31) primarily on account of loss of revenue to the tune of Rs.90.00 crore in March, 2020 due to nation-wide lockdown. For, 9MFY21 (refers to the period from April 01 to December 31), the company reported a marginal decline of ~3% in total operating income to Rs.908.08 crore as compared to the corresponding period of the previous year.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The PBILDT margin of the company improved marginally to 1.46% (PY: 1.27%) which consequently led to company reporting higher gross cash accruals to the tune of Rs.7.05 crore (PY: Rs.6.71 crore).

Moderate Financial risk profile

The overall gearing of the company improved from 1.76x as on March 31, 2019 to 1.21x as on March 31, 2020 primarily on account of accretion of profits to net worth and lower working capital borrowings o/s to the tune of Rs.50.13 crore (PY: Rs.57.29 crore) as on March 31, 2020. The average utilization of fund-based working capital limits stood low at 46.57% for the trailing 12 months period ending December, 2020. The debt coverage indicators remained moderate as reflected by PBILDT interest coverage of 3.84x (PY: 4.19x) and total debt/GCA of 5.68x (PY: 6.81x) for FY20.

Efficient working capital management

The company has low inventory holding of 10-17 days in its warehouses. Further, the company gets a credit period of around 15 days from its suppliers, while most of its sales are on cash basis. VRP receives payments from its online and multi brand partners within 20-25 days, thus collection period of the company remains at around 10-15 days on an average. Therefore, the company has a short operating cycle in the range of 15-20 days leading to faster rotation of cash and relatively lesser reliance on external borrowings.

Key Rating Weaknesses

Low profitability margins

VRP generates thin margins owing to its trading operations as also reflected by PBILDT and PAT margin of 1.40% and 0.73% respectively for FY20 as against PBILDT and PAT margin of 1.38% and 0.71% respectively for FY19. Further, ROCE of the company has consistently declined from 47.97% in FY18 to 16.48% in FY20 (24.06% in FY19) primarily on account of contribution from infocus (one of VRP's major supplier) till FY18 which was at a relatively higher margin as compared to other products.

Fragmented and competitive nature of industry

India is one of the most prominent markets for mobile phones, surpassing the United States and second only to China. The Indian mobile handset industry is marked by high level of competition with the market being highly price sensitive and value driven. Intense competition and fragmented nature of industry with both domestic and foreign players competing has resulted in stiff price competition. In order to capture the market share, the mobile companies are coming up with several initiatives such as bundled offers, discounts and aggressive pricing. However, these mechanisms are severely affecting the profitability margins of the manufacturers as well as the traders.

Industry Prospects

With expected increase in tele-density along with increased data consumption, the mobile handset segment is expected to continue on its growth path resulting in increasing smartphone penetration in the country. The prospects of the distributors like VRP shall be governed by its ability to retain the distributorship of some of the leading brands, while adding the new and upcoming brands along with augmenting its geographical presence. Going forward, as a result of change in product mix during the current year growth in contribution from white goods, laptops, accessories, air and water purifiers will be crucial to sustain profitability without any adverse impact on the capital structure of the company.

Liquidity: Adequate

VRP's adequate liquidity is evident from the lower utilization of the fund based working capital limits providing the cushion to the company in case of any unforeseen exigencies. The efficiency of the company to timely realize from its debtors and managing the inventory at the optimum level results in lower working capital requirement and subsequently lower interest cost. The free cash and bank balance as on September 30, 2020 stood at Rs.2.01 crore. The company is expecting cash accruals of Rs.9.63 crore in FY21 against minimal scheduled repayments of Rs.0.27 crore (vehicle loan) in FY21. The company has not availed any moratorium under RBI's Covid-19 relief package.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology - Wholesale Trading
Criteria for Short Term Instruments
Liquidity analysis of non-financial sector entities

About the Company
VRP was originally incorporated in the name of VRP Portfolio Limited on April 05, 2005 and was engaged in the business of finance and investment. The company is now into the business of trading of mobile handsets, mobile accessories, laptops, and home appliances. The company is authorized distributor of various brands such as Xiaomi, Apple, Acer, Asus, Eureka Forbes, Cannon, etc. The company has pan India distribution network with tie ups with various multi brand outlets and online portals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1323.51	1244.15
PBILDT	18.21	17.44
PAT	9.35	9.08
Overall gearing (times)	1.76	1.21
Interest coverage (times)	4.19	3.84

A: Audited
Status of non-cooperation with previous CRA: CRISIL vide PR dated November 30, 2020
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	70.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	70.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Dec-19)	1)CARE BBB-; Stable (27-Nov-18)	-
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3	-	1)CARE A3 (31-Dec-19)	1)CARE A3 (27-Nov-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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