Veerprabhu Marketing Limited

March 06, 2025

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term / Short-term bank facilities	66.03	CARE BB+; Stable / CARE A4+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Veerprabhu Marketing Limited (VML) take into account the leveraged capital structure and weak debt coverage indicators, dependency on the fortunes of principal with low bargaining power, renewal-based dealership agreement, cyclical nature of the auto industry, pricing constraints & margin pressure arising due to intense competition and moderation in working capital cycle in FY24 (refers to the period April 1 to March 31).

However, the above constraints are offset by its experienced promoters with long track record of operations, diversified business risk profile, moderate geographical diversification and improvement in financial performance in FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with improvement in operating margin beyond 5% on a sustained basis.
- Improvement in capital structure with overall gearing going below 1.25x on a sustained basis.

Negative factors

- Decline in scale of operations below Rs.250 crore along with deterioration in operating margin on a sustained basis.
- Discontinuance of dealership with Tata Motors Ltd (TML).
- Any substantial fund/non-fund-based exposure to group company/subsidiary putting pressure on the debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that entity is likely to benefit from the experience of the promoters in the auto industry.

Detailed description of key rating drivers:

Key weaknesses

Leveraged capital structure and weak debt coverage indicators

The capital structure of the company improved with overall gearing of 2.02x as on March 31, 2024, as against 2.81x as on March 31, 2023, on account of repayment of term loan and decrease in trade advance taken from TATA Motors Finance Limited. However, the same continued to remain leveraged.

Debt coverage indicators, though improved, continues to remain weak marked by high TDGCA of 27.83x as on March 31, 2024 (44.33x as on March 31, 2023. The improvement was on account of reduction in total debt and increase in GCA levels in FY24. The interest coverage ratio remained at similar levels of 1.44x in FY24 (1.42x in FY23).

Dependency on fortunes of principal with low bargaining power

The business model of VML is largely in the nature of trading with thin margins. Dealers lack bargaining power due to its dependence on such large principals that set policies, targets and link incentive-based income to satisfactory compliance of such policies. The company is exposed to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of OEM's vehicles in the market and their ability to launch new products. Further, any reputational damage to the OEM would impact the sales of dealerships.

Renewal based dealership agreement

The dealership agreement between TML and VML is valid for five years, last renewed in April 2021 and valid till March 31, 2026. Though the non-renewability of the same would pose a risk to the business sustenance of the entity, the past track record on agreement renewability mitigates the risk of renewability to an extent. The agreement between Bajaj and VML is also valid for 5 years. VML had commenced Bajaj Auto 2W operations from November 2020.

Cyclical nature of the auto 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

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

consumers, influencing the purchase decision. The company thus faces significant risks associated with the dynamics of the auto industry.

Pricing constraints and margin pressure arising due to intense competition
The base prices for all the vehicles are fixed by the OEM's. The dealers have very little leeway to enable and get incremental profits. VML has to resort to offering better buying terms like allowing discounts on purchases or giving freebies to capture market share in a competitive market. Such discounts create margin pressure and negatively impact the earning capacity of the company. The entry of various global OEM's in the Indian market has further intensified the competition. Due to very high competition in the industry, dealers are also forced to pass on discounts and exchange schemes to attract customers which restrict their margins.

Moderation in working capital cycle in FY24
The company's operating cycle moderated to 70 days in FY24 (57 days in FY23) marked by increase in collection period to 49 days in FY24 vis-à-vis 41 days in FY23. The inventory days also increased from 31 days in FY23 to 37 days in FY24 while the creditors period days stood stable at 16 days in FY24 (14 days in FY23).

Key strengths

Experienced promoters with long track record of operations
Suresh Kumar Jain is the second-generation entrepreneur with more than three decades of industry experience in trading and export of agro products. Earlier, VML was a part of the Jodhpur based LMJ group (present since 1968), having diverse business interest in trading of agro and non-agro commodities and dealership of commercial vehicle (CV) of TML. After the family separation in 2013, VML came under the control of Suresh Kumar Jain. Suresh Kumar Jain looks after the day-to-day operations of these companies along with the support from his son Siddharth Jain. The promoters are expected to provide fund support for reducing the debt level if required.

Diversified business risk profile
With long track record and healthy principal relationship, VML has created a portfolio of products that suits the requirement of diverse segment users. Their portfolio includes both passenger vehicles and commercial vehicles. VML currently has dealerships of Tata Motors (CV). The company has commenced dealership of Manitou Equipment (Construction Equipment) from November 2019 and Bajaj Auto (2W) from November 2020. VML also operates a leased warehouse (2,15,000 square feet area on lease upto 2035) in Kandla, Gujarat, through which it carries on the activity of storage and handling of food grains for various parties on rental basis being situated near port area.
Additionally, the company is planning to set up a service centre in Pali, Rajasthan which is expected to be operational in FY26.

Moderate geographical diversification
The geographical reach of VML is in all major districts of Rajasthan namely Barmer, Jodhpur, Jalore and Sumerpur, Pali and Sirohi thereby providing a satisfactory outreach within the state. Moreover, as maintained by the management of VML, the company has the exclusive distributorship of TML. Overall, VML has 5 showrooms with full-fledged 3S facility (sales service &spare) out of which showrooms at Jodhpur and Barmer are on lease for 99 years and the rest are on rent. Moreover, the 2 showrooms of Bajaj Auto (2W) which are rented are located in Pali and Sirohi district.

Improvement in Financial performance in FY24
The total operating income (TOI) of the company witnessed y-o-y growth of 4.76% in FY24 to Rs.649.52 crore on account of increase in sales volume. The profitability margins of the company continued to remain low mainly due to the trading nature of operations coupled with limited pricing power as the same is fixed by TML. However, PBILDT margin improved to 2.44% in FY24 from 2.11% in FY23 due to decrease in sales promotion expenses incurred by the company from Rs.2.19 crore in FY23 to Rs. 1.24 crore in FY24. With improvement in PBILDT margin, PAT margin also witnessed marginal improvement and stood at 0.49% in FY24 as against 0.38% in FY23. The company earned GCA of Rs.4.68 crore vis-à-vis debt repayment obligation of Rs.3.82 crore in FY24.
The company has generated revenue of Rs.419.00 crore in 9MFY25 with PBILDT margin of 2.95% on account of improved industry demand scenario.

Satisfactory Risk Management Practices
The company is not engaged in import/export of PVs and CVs. Hence the company is not exposed to foreign exchange fluctuations. The volatility risk in terms of prices of automobiles for the company is also mitigated as the prices of PVs and CVs are determined by TML. The company is also not exposed to credit risk as the customer profile mainly consists of the retail customers who get their major part of the vehicle cost financed by a bank or a NBFC. The vehicle is released from the showroom only when the delivery order or the sanction letter from the bank is produced by the customer. Hence the credit risk is mitigated. The company is engaged in stock and sale model of dealership business for trucks, tippers and PVs where the inventory is maintained for about 1-2 months. Trucks, tippers and other commercial vehicles are expensive and thus the company is exposed to fair amount of inventory risk. However, the company also works on Just-In-Time (JIT) system for slow moving product like buses wherein it purchases inventory as the order is received.

Liquidity: Stretched

Liquidity is stretched marked by low gross cash accruals of Rs.4.68 crore vis-à-vis debt repayment obligations of Rs.3.83 crore during FY24. In FY25, the company has debt repayment obligation of Rs.4.17 crore against which it is expected to generate sufficient cash accruals. The average utilization of the fund-based bank limits stood around 82.45% during the last 12 months ended December 2024. The current ratio of the company stood at 1.19x as on March 31, 2024 (1.21x as on March 31, 2023).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Dealer
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	Auto Dealer

VML, incorporated in 1983, is promoted by Suresh Kumar Jain. VML is an authorized dealer of CV of TML, construction equipment of Manitou and 2W of Bajaj Auto in Rajasthan. VML has 5 showrooms of TML with 3S (Sales, Service and Spare) facility in Barmer, Jodhpur, Jalore, Sumerpur and Pali in Rajasthan. The showrooms of Bajaj Auto for 2W are located in Pali and Sirohi district in Rajasthan. VML also operates a leased warehouse (2,15,000 square feet area on lease upto 2035) in Kandla, Gujarat, through which it carries on the activity of storage and handling of food grains for various parties on rental basis being situated near port area.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MYF25 (UA)
Total operating income	619.99	649.52	419.00
PBILDT	13.06	15.86	12.36
PAT	2.33	3.21	2.48
Overall gearing (times)	2.81	2.02	2.12
Interest coverage (times)	1.42	1.44	1.48

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	66.03	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)Withdrawn (07-Dec-23)	1)CARE BBB-; Stable (19-Sep-22)	1)CARE BBB-; Negative (07-Feb-22)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	66.03	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (07-Dec-23)	1)CARE BBB-; Stable / CARE A3 (19-Sep-22)	1)CARE BBB-; Negative / CARE A3 (07-Feb-22)
3	Fund-based - LT/ ST-Bank Overdraft	LT/ST	-	-	-	1)Withdrawn (07-Dec-23)	1)CARE BBB-; Stable / CARE A3 (19-Sep-22)	1)CARE BBB-; Negative / CARE A3 (07-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: + 91-33-4018 1631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Kamal Mahipal Assistant Director **CARE Ratings Limited** Phone: + 91-33-4018 1628 E-mail: kamal.mahipal@careedge.in Onkar Verma Analyst **CARE Ratings Limited** E-mail: Onkar.verma@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information,
please visit www.careedge.in