

VRP Telematics Private Limited
December 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	45.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	95.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	140.00 (Rupees one hundred and forty crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of VRP Telematics Private Limited (VRP) derive strength from its resourceful promoters with experienced and professional management, tie ups with reputed brands and robust distribution network. The ratings also factor in the moderate financial risk profile of the company and efficient working capital management. However, the rating strengths are partially off-set by low profitability margins and fragmented and competitive nature of the industry.

Rating Sensitivities*Positive Factors*

- Sizeable increase in scale of operations from present level (Total Operating Income above Rs.1600 crore) and improvement in the profitability margin (with PBILDT margin above 1.90% and PAT margin above 1.20%) on a sustainable basis.

Negative Factors

- Any sizeable de-growth in scale of operations from present level (TOI below Rs.1200 crore) and deterioration in profitability margins (with PBILDT margin below 1.20%) on a sustained basis.
- Deterioration in capital structure with overall gearing ratio deteriorating to more than 2.00x on a sustained basis.

Detailed description of the key rating drivers**Key Rating Strengths**

Resourceful promoters with experienced 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. The company is effectively managed by a team of professionals under the leadership of Mr. Sachin Thapar (CEO). Mr. Sachin an MBA from IIM Lucknow and has 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, Asus, and Eureka Forbes. Thus, VRP has a diversified portfolio thereby reducing its dependence on a single brand.

VRP is an exclusive regional distributor of Xiaomi mobile phones in North India with major operations spread across Rajasthan, Uttar Pradesh and Uttarakhand. The Company has wide distribution network of over 700 direct distributors spread over 25 cities. Further, the company has ventured into retail distribution with a Korean fashion brand "2358" to help them establish their franchisee store in India. Under this franchisee model the company shall undertake distribution of various fashion products to the franchisee stores and does not entail any capital cost for the company.

Moderate Financial risk profile: The total operating income of the company grew at a compounded annual growth rate (CAGR) of ~60% from Rs. 325.63 crore in FY16 (refers to the period: April 01 to March 31) to Rs. 1323.51 crore during FY19. As a result of higher working capital balance as on March 31, 2019, the overall gearing of the company moderated to 1.76x (PY: 0.86x). However, the average utilization of fund-based working capital limits stood low at 49.50% for the trailing 12 months period ending October, 2019. Interest coverage ratio of the company moderated to 4.19x in FY19 (FY18: 7.13), as the company raised additional working capital debt in FY19 to support the growing scale of operations. As per the unaudited results, VRP reported total sales of Rs. 704.73 crore and PAT of Rs. 6.91 crore in H1FY20 (refers to the period: April 01 to September 30).

Efficient working capital management: The Company has low inventory holding of 10-15 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

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

around 10-15 days on an average. Therefore, the company has a short operating cycle in the range of 10-15 days leading to faster rotation of cash and relatively lesser reliance on external borrowings.

Key Rating Weaknesses

Low profitability margins: The PBILDT margin has declined in the FY19 to 1.38% from 1.73% in FY18, as one of the major supplier of the company - "Xiaomi" has reduced the margins offered to the dealers. Further due to intense competition in the industry the operating profitability of the company has reduced slightly as the manufacturer has to adopt aggressive pricing techniques in order to capture market share thereby squeezing the margins throughout the distribution line. Further, due to poor response from the domestic market, one of VRP's major supplier has discontinued its Indian operation, resulting in lower operational profit (of VRP) as the appliances of that company were sold at higher margins.

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.

Liquidity: Adequate

The liquidity of the company stood adequate as 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 March 31, 2019 stood at Rs. 23.86 crore. The company has generated cash accruals of Rs. 9.52 crore in FY19 against minimal scheduled repayments of vehicle loan in FY20.

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](#)

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. The company has recently ventured with "2358" - a Korean fashion retail brand to establish their franchisee stores in India.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1129.50	1323.51
PBILDT	19.52	18.21
PAT	10.87	9.35
Overall gearing (times)	0.86	1.76
Interest coverage (times)	7.13	4.19

A: Audited

Status of non-cooperation with previous CRA: Crisil vide PR dated August 06, 2019

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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	-	-	-	45.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	95.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	15.00	Suspended	-	-	-	1)Suspended (19-Dec-16)
2.	Non-fund-based - ST-BG/LC	ST	20.00	Suspended	-	-	-	1)Suspended (19-Dec-16)
3.	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Nov-18)	-	-
4.	Non-fund-based - ST-BG/LC	ST	95.00	CARE A3	-	1)CARE A3 (27-Nov-18)	-	-

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

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

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