

## Vipul Motors Private Limited

August 19, 2020

### Ratings

| Facilities                 | Amount<br>(Rs. crore)   | Rating <sup>1</sup>   | Rating Action |
|----------------------------|---|---|---------------|
| Long-term Bank Facilities  | 45  | CARE BB+; Stable/CARE A4+<br>(Double B Plus; Outlook: Stable/A Four Plus) | Assigned      |
| Short-term Bank Facilities | 180   | CARE A4+<br>(A Four Plus)   | Assigned      |
| <b>Total facilities</b>    | <b>225</b><br><b>(Rs. Two hundred and<br/>twenty crores only)</b> |   |               |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vipul Motors Private Limited are constrained by the company's moderate financial risk profile characterized by low profitability margins, leveraged capital structure along with modest debt coverage indicators, limited bargaining power and inherent competition and cyclical nature of the auto industry.

However, the ratings derive strength from the experienced promoters, widespread presence across North India Region along with well-established relationship with Maruti Suzuki India Limited, large scale of operations and efficiently managed working capital cycle.

#### Positive Factors:

- Substantial growth in total operating income while maintaining profitability margins with PBILDT margin of higher than 5%.
- Improvement in the capital structure with an increase in the net-worth base of the company leading to an overall gearing of below 1.2x.

#### Negative Factors:

- Decline in total operating income by more than 25% and decline in PBILDT margin below 1.5 %.
- Deterioration in the capital structure with a decline in the net-worth base / increase in debt levels leading to further moderation in the overall gearing ratio at above 6 times.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Moderate Financial Risk Profile with modest profitability margins and leveraged capital structure**

An automotive dealer's revenues are primarily driven by volumes, while the profits are driven by the sale of spares and service income, as the latter fetches higher profit margins. The company has limited negotiating power with manufacturers and has no control over the selling price of the vehicles as the same is fixed by the manufacturers. Thus, the profitability margins of the company stood low. The PBILDT and PAT margins of the company remained relatively low at below 2% and 0.25% respectively in last 3 FYs (FY17-19). The PBILDT margin stood at 1.88% during FY20 (based on provisional results; (PY: 1.83%). And the PAT margin of the company stood at 0.11% during FY20 (PY: 0.23%).

The capital structure of the company is leveraged characterized by an overall gearing of more than 4x consistently for the past three fiscals. The same is on account of lower net-worth base of the company vis-à-vis higher amount of debt. As on March 31, 2019, the overall gearing of the company moderated further and stood at 5.47x as against 4.32x as on March 31, 2018. The total debt of the company increased y-o-y and stood at Rs.211.92 crores as on March 31, 2019 (PY: Rs.154.60 crores). The increase in borrowings are mainly on account of the working capital borrowings taken by the company; which constitute the major portion of the total debt.

**Debt Coverage Indicators:** Owing to moderate profitability and higher debt, the debt coverage indicators of the company stood modest. The interest coverage and the Total Debt to GCA ratio stood at 1.43x and 30.01x respectively for FY19 (PY: 1.49x and 25.27x).

#### Limited bargaining power and Fortunes of the company linked with growth plans of the manufacturer

The company procures its product directly from its principal; and is not dependent upon any dealers/distributors for business which helps the company to avail better pricing of purchases. Furthermore, the fortunes of the company are directly linked to its supplier. This also exposes the company's revenue growth and profitability to its supplier's future growth prospects.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Any impact on business and financial profile of the manufacturer will also have an impact on the growth prospects of the company. Moreover, dealers have less bargaining power over principal manufacturer.

#### **Inherent competition and cyclical nature of the auto industry**

The company is exposed to competition from the products of other OEM's and dealers operating in the same region. In order to capture the market share, the auto dealers' offers better buying terms like allowing discounts on purchases. Such discounts offered to customers create margin pressure. Accordingly, the company has to resort to offering better buying terms like allowing discounts to capture the market share. Such discounts create margin pressure and negatively impact the earning capacity of the company. However, the company's association with its customers, its established network helps it to sustain the competition to an extent and maintain its strong market position in the region. Furthermore, the auto industry is inherently vulnerable to the economic cycles and is highly sensitive to the interest rates and fuel prices. The company thus faces significant risks associated with such cyclical nature of the auto industry.

#### **Industry Outlook**

After a gloomy 1st quarter in on-going fiscal, the 2nd quarter began on a good note as July 2020 witnessed positive growth (M-o-M) in production, domestic sales and exports of automobiles. Passenger vehicles, tractors and 2&3 wheelers segments have shown good momentum during the month on a sequential basis, which gives us hope for recovery in the forthcoming future. The consumer demand which could not be met in April, May 2020 and initial days of June 2020 due to the nation-wide and various state lockdowns is expected to be spread across the next 6 months - from July to December 2020. The festive season is a crucial period for automobiles sector, as this is the time of the year when consumers usually make purchases of large ticket items, which are discretionary in nature. Also, employees may be asked to travel to office stations at frequent basis and reducing working from home. This may lead to a preference of commuting in personal vehicles rather than using public mode of transports. However, macroeconomic numbers continue to disappoint, reaching pre-Covid level is unlikely in FY21. While volume pickup is expected from H2-FY21, full demand recovery is expected only in FY22.

#### **Key Rating Strengths**

##### ***Experienced promoters***

Vipul Motors Private Limited was incorporated on March 07, 1988 and is promoted by the Delhi-based Beriwalla family. Currently, the operations of the company are being managed by Mr.Vineet Beriwalla, who is supported in his operations by his wife, Mrs. Uma Beriwalla, who have an experience of more than three decades in the business. Further, company has a dedicated team of marketing and sales professionals, service in-charge and customer relation officers, who have significant experience in their respective fields.

##### ***Widespread presence across North India Region along with well-established relationship with MSIL:***

Vipul Motors Private Limited (VMPL) has operational track record of more than 30 years in the auto dealership business. VMPL handles the sales and service of all types of MSIL's cars. It has a widespread presence across North India Region. The company initially began with single dealership in Faridabad; however, over the years, it has expanded its reach and today it has presence across five locations with eighteen showrooms and eleven workshops.

The company has an authorized dealership of Maruti Suzuki India Limited (MSIL) for its brands NEXA and ARENA; particularly in the North India Region. MSIL has been the market leader in passenger car segment for more than three decades.

##### ***Large Scale of Operations***

The company has large scale of operations characterized by TOI of Rs.1255.60 crores during FY19. The same is mainly attributable to the long track record of operations of the company. Therefore, the large scale provides the financial flexibility along with the benefits of economies of scale. For the period, FY17-FY19, the company's TOI grew from Rs.1169.26 crores to Rs.1255.60 crores, thus reflecting compounded annual growth rate of around 4%. The company sold 22,667 vehicles during FY19 as against 21,210 vehicles sold during FY18.

The company reported y-o-y decline of around 9% in the sales volume. The company sold 20,713 vehicles during FY20. The same has been primarily on account of the slow-down in the auto sector coupled with the impact of Covid-19 in the last quarter of FY20.

##### ***Efficient Management of Working Capital Cycle***

The company has efficiently managed its working capital cycle as reflected in its operating cycle days of around a month over the three fiscal years ended March 31, 2019, particularly driven by moderate levels of inventory and low collection period. As against this, an immediate payment is made by the company to MSIL.

**Liquidity analysis:** Adequate

- The company has adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations and modest cash and bank balance.
- The company is required to stock different models of vehicles and spares in the showrooms in order to ensure adequate availability and visibility, thus leading to moderate levels of inventory. The average inventory holding days of the company stood at 21 days during FY19 (PY: 19 days) and the average debtor days stood at around 17 days during FY19 (PY: 15 days). This is on account of sales are made to the customers mostly on “Cash and Carry” basis with certain percentage of vehicles bought on vehicle financing from banks. However, the company has to make an immediate payment to MSIL, thus, leading to a shorter credit period of maximum of 3 days. The average working capital utilization of the company stood moderate at around 76% for the past twelve months ending June, 2020.

**Analytical approach:** Standalone**Applicable Criteria**

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating methodology- Wholesale trading](#)

[Financial ratios – Non-Financial Sector](#)

**About the Company**

Vipul Motors Private Limited was incorporated on March 07, 1988 and is promoted by the Delhi-based Beriwalla family. The company is an authorized dealer of Maruti Suzuki India Limited, particularly in the North India Region. It is primarily engaged in the sale of new cars, servicing of vehicles, sale of spare parts and sale and purchase of pre-owned cars.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income       | 1,175.47 | 1,255.66 |
| PBILDT                       | 18.50    | 22.98    |
| PAT                          | 0.27     | 2.92     |
| Overall gearing (times)      | 4.32     | 5.47     |
| Interest coverage (times)    | 1.49     | 1.43     |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**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 - ST- Working Capital Limits | -                | -           | -             | 130.00                        | CARE A4+                                  |
| Fund-based - ST- Working Capital Limits | -                | -           | -             | 20.00                         | CARE A4+                                  |
| Fund-based - ST- Working Capital Limits | -                | -           | -             | 30.00                         | CARE A4+                                  |
| Fund-based - LT/ ST- Cash Credit        | -                | -           | -             | 45.00                         | CARE BB+; Stable / CARE A4+               |

**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 - ST-Working Capital Limits | ST              | 130.00                         | CARE A4+                    | -   | -   | -   | -   |
| 2.      | Fund-based - ST-Working Capital Limits | ST              | 20.00                          | CARE A4+                    | -   | -   | -   | -   |
| 3.      | Fund-based - ST-Working Capital Limits | ST              | 30.00                          | CARE A4+                    | -   | -   | -   | -   |
| 4.      | Fund-based - LT/ ST-Cash Credit        | LT/ST           | 45.00                          | CARE BB+; Stable / CARE A4+ | -   | -   | -   | -   |

**Annexure 3: Complexity level of various instruments rated for this company/firm**

| Sr. No. | Name of the Instrument                 | Complexity Level |
|---------|--|------------------|
| 1.      | Fund-based - LT/ ST-Cash Credit        | Simple           |
| 2.      | Fund-based - ST-Working Capital Limits | Simple           |

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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