

Rating Rationale

Advanced Automobiles Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	36.24	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	1260.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	1296.24		

Details of facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB (Triple B minus)’ to the long term bank facilities and ‘CARE –NP A3 (A Three)’ to the short term bank facilities of Advanced Automobiles Private Limited (AAPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AAPL derives strength from experienced & resourceful promoters and company being part of Vishal Group of Companies; sole distributor of Renault SAS in Nepal; strong brand value of Renault; established dealer network and moderate financial risk profile & debt service indicators during FY18 (UA, refers to the period ending July 16, 2018). The ratings, however, are constrained by limited track record of operation; leveraged capital structure; working capital intensive nature of operation and exposure to volatile interest rates; intense competition from dealers of alternative automobile brands; cyclic nature of auto industry and exposure to regulatory risks.

Ability of the company to maintain the revenue growth, improvement in the profitability margin and its overall solvency position will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Experienced and resourceful promoters

AAPL derives strength from its strong promoters and being a part of the Vishal Group of Companies, which have a strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. Along with AAPL, Vishal Group of companies are dealing with other automobile’s sole distribution ship / dealership from more than 7 years and have a wide dealer network of automobile distributorship. The other companies in the group are having authorized distributorship of Volkswagen cars, Kobelco construction equipment and Suzuki Motorcycles in the country.

The day to day operations of the company are managed by Mr. Nikunj Agrawal, who is Managing Director of the company. Mr. Agrawal supervises the operations of the automobile distributionship / dealership in the Group and has an experience of more than a decade through various entities in the same

¹ Complete definitions of the ratings assigned are available at www.careratingsnepal.com.

group. The promoter group infused equity of Rs.47 million during FY18 to support the working capital on back of increasing operations of the company.

Established brand, Sole distributor of Renault SAS and established dealer network

AAPL is presently, the only authorized distributor in Nepal for Renault SAS. Renault is a French multinational automobile manufacturer which was founded 119 years ago and has worldwide presence in 134 countries and has sold 3.76 million vehicles in 2017. AAPL mostly import Renault cars from Renault India Pvt. Ltd. Presently, AAPL has established dealer network of 11 dealers across Nepal and the company has also owned two showrooms along with two service centres. The company is in process to increasing the dealer network in current financial year.

Moderate financial risk profile marked by growth in revenue, decline in PAT, moderate debt service indicators, however, leverage capital structure

AAPL's financial risk profile is characterised by increasing scale of operations, decreasing profitability and moderate debt service coverage indicators. The total income of AAPL grew by 12.14% to Rs.2982 Mn in FY18 (vis-à-vis, Rs.2659 Mn in FY17) on back of increase in the cars sold from 856 cars in FY17 to 1027 cars in FY18. AAPL has low profitability margins on account of trading nature of business. The PBILDT margin declined during FY18 to 6.62% from 8.64% in FY17 due to higher proportion of sales from the dealers during FY18 in comparison to FY17 and increase in the administration expenses. Further, due to increase in interest expenses and decline in PBILDT, the PAT of the company declined to Rs.78 Mn in FY 18 from Rs. 134 Mn in FY17. Similarly, the cash accrual of the company also declined by 35.85% to Rs. 92 Mn in FY18 although comfortable in comparison to total term debt.

The capital structure of the company remained weak with long-term debt to equity and overall gearing ratios of 0.15x and 3.78x, respectively, as on July 16, 2018 on account of higher utilization of working capital limits. The debt coverage indicators also remained at a moderate level with the total debt to GCA ratio of 9.69x, as on July 16, 2018 and the interest coverage ratio at a level of 2.47x in FY18.

Key Rating Weakness

Working capital intensive nature of operation

Automobile dealership business has inherent high working capital intensity due to high inventory holding requirements and credit to the dealers. This apart, AAPL has to make payment in advance to the car manufacturer/supplier for the purchase of vehicles. Thus, the business depends heavily on working capital borrowings. During FY18 AAPL has inventory holding period of 62 days and operating cycle of 88 days. Accordingly, the average utilization of working capital limit was on the higher side during the last 12

months ended on mid-July 2018. The company also relies on adhoc limits from the banks due to high inventory levels.

Cyclical nature of the auto industry and high competition from other automobile dealers

The demand for passenger vehicles is inherently vulnerable to the economic cycles and is highly sensitive to interest rates. Demand for passenger vehicles increases during period of high economy growth rate period and low interest rate regime and vice-versa. Also there is stiff competition from automobile dealerships in Nepal. There are large number of players operating in market like Hyundai, Honda, Toyota, Nissan, Volkswagen, Ford, TATA Motors etc. Due to high competition dealers are forced to pass on discount and exchange scheme to attract customer.

Exposure to regulatory risk related to Automobile industry

The development in automobile is very sluggish on back of hefty excise duty imposed on the import of automobiles and sharp increase in taxes for FY19. Also automobiles are still taken as luxury items in Nepal. Additionally, as per circular dated on November 6, 2018, the Central bank has reduced the cap on bank financing to 50% of value of vehicle used for personal purpose which could slow down demand growth in the industry.

About the Company

Advanced Automobiles Private Limited (AAPL) was incorporated in September 13, 2013 under Companies Act, 2006 by Mr. Nikunj Agrawal and his relatives. AAPL commenced its commercial operations from October 2016 as a sole authorized distributor for Renault SAS, France in Nepal. The Company is engaged in the sale of Passenger Vehicles (PV) of Renault, servicing of the vehicles and sale of spare parts. The company owns and operates two showrooms at Thapathali & Naxal and two service centres situated at Kalopool & Paropakar, all in Kathmandu. During FY18 (UA), the company generated around 97.61% of the revenue from the sale of vehicles, while the balance was achieved from servicing, sale of spare parts, etc.

Financial performance of the company:

(Rs. Million)

Particulars	FY17	FY18
	(Audited)	(Unaudited)
Income from Operations	2659	2982
PBILD	230	197
PAT	134	78
Overall Gearing	4.97	3.78
Interest coverage (times)	5.35	2.47

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Annexure 1: Details of the Facilities

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	36.24	CARE-NP BBB-
Short Term Bank Facilities	Over Draft	320.00	CARE-NP A3
Short Term Bank Facilities	Working Capital Loan	940.00	CARE-NP A3
Total		1296.24	