

Rating Rationale

V.G. Automobiles Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	7.46	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	1188.50	CARE-NP A3 [A Three]	Assigned
Total Facilities	1195.96		

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 V.G. Automobiles Private Limited (VGAPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of VGAPL derives strength from experienced & resourceful promoters and company being part of Vishal Group of Companies; sole distributor of Suzuki Motorcycle India P Ltd., Atul Auto Ltd. and Motul Lubricants in Nepal; strong brand value of the distributorships; established dealer network; moderate track record of operation 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 leveraged capital structure; working capital intensive nature of operation and exposure to volatile interest rates; intense competition from dealers of alternative automobile brand; 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

VGAPL 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 VGAPL in the automobile industry, Vishal Group is 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 Renault Cars 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 distributorship / 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 has infused equity of Rs.14 million during FY18 to support the working capital on back of increasing operations of the company.

Moderate track record of operations

VGAPL was incorporated in September 2013 and started its commercial operation as a sole distributor of Suzuki Motorcycle India Pvt. Ltd. (SMIPL) motorbikes and spare parts for Nepal. During FY18, they started operating as an exclusive distributor of Atul Auto Ltd. three wheelers & its spare parts. Also, the company started selling Motul Lubricants in Nepal from end of FY18. Thus, the company is having moderate track record for five years into operations with increase in its coverage area product wise. Also, the promoters have over 7 years of experience in auto dealership business with other group companies.

Established brand and Sole distributor of Suzuki Motorbikes, Atul Auto vehicles and Motul Lubricants

VGAPL is presently, the sole authorized dealer in Nepal for SMIPL, Atul Auto Ltd. and Atlantic Lubricants & Specialities Pvt. Ltd. SMIPL is a subsidiary of one of the world's leading two-wheeler manufacturer, Suzuki Motor Corporation, Japan. During FY18 (12 months ended March 31, 2018), SMIPL's overall cumulative sales including exports, stood at 5,74,787 units, an increase of 36% over the last-year. During FY18, VGAPL entered into agreement with Atul Auto Limited, India as an exclusive distributor of three wheelers in Nepal. Atul Auto Ltd. is operating from 30 years in India and is one of the major players in the three wheeler industry in India.

Also, VGAPL recently started selling Motul Lubricants in Nepal. Similarly, it has entered into agreement with BEML Ltd. (India's Public Sector Undertaking) during October 2018, as distributor for heavy equipment in Nepal. BEML is wholly owned subsidiary of India's Ministry of Defense and involved in manufacture of wide range of products needed for mining, construction, power, irrigation, fertilizer, cement, steel and rail sector. Being only authorized dealer gives VGAPL high client base and large demand catering opportunity.

Established dealer network

VGAPL have established dealer network with total 85 dealers for two wheelers and 18 dealers for three wheelers. Additionally, the company has also owned two showrooms along with one service center for two wheelers. The company sold 5396 vehicles through dealers (including 488 three wheelers) and 1122 vehicles through owned showrooms during FY18.

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

VGAPL's financial risk profile is characterised by increasing scale of operations, volatile profitability and moderate debt service coverage indicators. VGAPL has also low profitability margins given trading nature of the company. VGAPL derives its total income from sale of vehicles, servicing and sale of spare-

parts. In FY18, income from sale of vehicles contributed 89.90% of the total income, while sale of spare parts, accessories and oil contributed 8.44% (Rs. 125 Mn). The total income of VGAPL grew by 27.15% to Rs. 1478 Mn during FY18 on account of increase in the two wheeler units sold and contribution from new three wheeler segment which accounted for 15% of the total income. The PBIDLT of the company has increased by 46.32% and PBILDT margin improved to 8.58% due to increase in sales volumes as well as higher sales from servicing and spareparts during the year. The increase in the PBILDT also lead to increase in PAT by 106.40% to Rs.47 million during FY18 due to marginal increase in depreciation and interest expenses. Similarly, Gross cash accrual of the company also increased by 238.25% to Rs. 57 Mn in FY18 which was comfortable in comparison to total term debt, also company has moderate interest coverage ratio of 2.35x in FY18.

VGAPL has a leveraged capital structure mainly on account of higher bank borrowings to fund its inventory and debtor requirements. However, the overall gearing ratio improved from 4.81x at the end of FY17 to 3.52x at the end of FY18 on back of increase in networth through capital infusion of Rs. 14 Mn and accretion of the profits to the reserves partially offset by increase in working capital loans.

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. The company has to maintain fixed level of inventory for display and high level of inventory to guard against supply shortages as the supply is totally dependent upon imports. This apart, VGAPL has to make payment in advance to the manufacturer/supplier for the purchase of vehicles. Thus, the business depends heavily on working capital borrowings and inventory funding channels. During FY18, VGAPL has inventory holding period of 77 days and operating cycle of 136 days. Accordingly, the average utilization of working capital limit was on the moderate side during the last 12 months ended on mid-July 2018.

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

The demand for motorbikes is inherently vulnerable to the economic cycles and is highly sensitive to interest rates. Demand for motorbikes 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 for two wheelers like Bajaj, Hero, Honda, TVS, Yamaha etc. and for three wheelers like Bajaj, TVS, Piaggio etc.

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

V.G. Automobiles Private Limited (VGAPL) was incorporated in September 13, 2013 under companies Act, 2006 by Mr. Nikunj Agrawal and his relatives. The company started its operations as a sole authorized distributor for Suzuki Motorcycle India P Ltd (SMIPL) for their two wheeler vehicles & spare parts in Nepal. During FY18, the company also started selling three wheeler vehicle & spare parts of Atul Auto Limited and Motul Lubricants in Nepal. Further, during October 2018, VGAPL has entered into an agreement with BEML Ltd. as a distributor for their heavy equipments. During FY18 (UA), the company reported around 89.90% 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	1162	1478
PBILDT	87	127
PAT	23	47
Overall Gearing	4.81	3.52
Interest coverage (times)	1.86	2.35

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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	7.46	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	818.50	CARE-NP A3
Short Term Bank Facilities	Over Draft	320.00	CARE-NP A3
Short Term Bank Facilities	Letter Of Credit	50.00	CARE-NP A3
Total		1195.96	