

**Rating Rationale**  
**United Traders Syndicate Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	3,100.00	CARE-NP A4+ [A Four Plus]	Revised from CARE NP A3+ [A Three Plus]
<b>Total Facilities</b>	<b>3,100.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the Rating to ‘CARE-NP A4+’ to the short-term bank facilities of United Traders Syndicate Private Limited (UTSPL).

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to bank facilities of United Traders Syndicate Private Limited (UTSPL) takes into account negative impact of impact of COVID-19 on the business of the company, financial risk profile marked by decline in revenue and net profit during FY19 (audited refers to 12 months ended on Mid- July 2019) and H1FY20 (unaudited refers to 6 months ended on Mid- January 2020 ), leveraged capital structure of the company, fortunes linked to performance of Toyota, working capital intensive nature of operations and exposure to volatile interest rates. The rating is also constrained by foreign exchange fluctuating risk, cyclic nature of auto industry, competition from other automobile players and exposure to regulatory risk related to automobile industry. The rating, however, derives strength from experienced & resourceful promoters, established and long track record of operations, strong brand value of Toyota Motor Corporation, Japan, sole authorised distributor in Nepal and presence of established dealer network. The ability of the company to maintain the revenue growth, improvement in the profitability margins and its overall solvency position will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Financial risk profile marked by decline in revenue and net profit during FY19 and H1FY20***

Company derives its income from sale of vehicles, spare parts, accessories & oil and servicing of vehicles. The total income of UTSPL declined by 18% during FY19 to Rs. 5,887 Mn over FY18, on account of decline in number of units sold due to slowdown in automobile industry coupled with regulatory push back and evolving electric vehicles market resulted in decreased demand for automobiles in the market. The PAT of the company declined substantially by 99% to Rs. 2 Mn during FY19 mainly due to decline in the PBILDT and increase in interest expenses due to high utilisation of working capital loans. Gross cash accrual (GCA) also declined substantially to Rs. 29 Mn in FY19 compared to Rs. 369 Mn in FY18 on account decline in PAT during the year. Further, UTSPL reported total income of Rs.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

2,052 Mn during H1FY20 with lower PBILDT margin of 4.59% and the company incurred loss of Rs. 23 Mn.

#### ***Leveraged capital structure of the Company***

The overall gearing ratio of the company deteriorated to 2.88x at the end of FY19 as compared to 2.06x at the end of FY18 due to the decline in net worth of the company on back of dividend. However, at the end of H1FY20, the overall gearing of the company improved to 2.53x mainly due to decline in total debt. The debt equity ratio of the company was low at 0.34x. UTSPPL's Total Debt to Gross Cash Accruals (GCA) deteriorated to 75.70x on account of decline in GCA during FY19 Total Debt to GCA further deteriorated to negative in H1FY20. Further, the interest coverage ratio of the company deteriorated to 1.15x during FY19 and further declined to below unity in H1FY20 due to decrease in PBILDT and increase in the interest expenses.

#### ***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. Apart from this, the vehicle manufacturer/ Supplier delivers vehicle only against the letter of credit from banks. Thus, the business depends heavily on working capital borrowings. During FY19, UTSPPL had inventory holding period of 43 days and average collection period of 102 days. The overall operating cycle increased to 136 days from 118 days in FY18 due to increase in average collection period. Accordingly, its average utilization of working capital limit was high at around 86.31 % during the last 12 months ended on Mid-February 2020.

#### ***Exposure to volatile interest rate***

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 years. Therefore, funding from BFIs is subject to volatile interest rate.

#### ***Foreign exchange rate fluctuation risk***

UTSPPL imports vehicles from various countries like India, Japan and Thailand and Indonesia. The pricing of imported vehicles from Japan is in Yen, India in INR and other than Japan and India is in USD. Company had not taken any measures to hedge itself from foreign currency payment such as forward exchange contract, option which exposes UTSPPL to the high risk associated with the fluctuation in foreign currency exchange rate. During FY19, the company incurred minimal foreign exchange loss.

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

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 other automobile dealerships in Nepal. There are large number of players operating in market like Hyundai, Honda, Toyota, Nissan, Volkswagen, Ford, TATA Motors, and Jeep etc. Competition is also intensified due to introduction of electric vehicles in the market which seems to be a viable option to customers on account of eradication of load-shedding in the country coupled with attractive incentives from government. Due to high competition, dealers are forced to pass on discounts and exchange schemes to attract customer since it is a volume driven business.

***Exposure to regulatory risk related to Automobile industry***

The demand in automobile sector is very sluggish in Nepal on back of heavy import duty (which include custom duty, excise duty and value added tax) imposed on the import of automobiles 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% (earlier 65%) of value of private vehicle which has slowed down demand growth in the industry. Further, due to expected slowdown in overall economy because of COVID-19 and with an objective to safeguard the balance of foreign exchange reserve Government of Nepal (GoN) banned the import of various items including vehicles of value exceeding USD 50,000.

***Impact of Covid-19 on the business of the company***

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization on March 11, 2020, has affected Nepal as well. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations which resulted in slowing down of the economic activities. Till June 04, 2020, UT SPL achieved the total income of Rs. 2,875 Mn. Due to the lockdown, sales of UT SPL has slowed down which has directly impacted the revenue of the company. Further, the Central Bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. However, UT SPL has not availed the relaxation and has made its debt repayments for quarter ending mid-April 2020.

**Key Rating Strengths*****Experienced & Resourceful Promoters***

UT SPL derives strength from its strong shareholders and being a part of the Vaidya's Organization of Industries and Trading Houses (VOITH), which have a strong presence in Nepal through their group entities engaged in automobile trading industry and Argo based industry (tea processing). Mr. Suraj

Vaidya, is the president of UTSPPL since last 30 years. He is past President of Federation of the Nepal Chamber of Commerce and Industries (FNCCI) Chamber of Commerce. Mrs. Ritu Singh Vaidya, wife of Mr. Suraj Vaidya, is the managing director of UTSPPL since last 10 years. She looks after day to day operations of the company along with the experienced management team.

***Established and long track record of operations***

UTSPPL was incorporated in June 1971 and although started operations from 1967 as a sole distributor of Toyota vehicles and its spare parts in Nepal. Thus, the company has a long track record of over 5 decades of operations.

***Strong brand value of Toyota Motor Corporation, Japan and sole distributor in Nepal***

Toyota Motor Corporation (TMC) was established in 1937 and has 59 plants and manufacturing companies, 16 R&D sites and 167 distributors across the world as on March 31, 2019. Over years, Toyota have been able to build its strong brand equity. Toyota products are best known globally for its durability, innovation and product quality. Since, its products are strong and durable, they are most opted by projects, construction companies, diplomats and politicians in Nepal. Also, Toyota SUVs are symbol of high brand and prestige to elite community, top managers and business persons in Nepal. Being sole authorized distributors of Toyota vehicles and established dealer network, UTSPPL has high client base and large demand catering opportunity. On the other hand, the fortune of the company is also linked to the performance of Toyota worldwide.

***Established dealer network***

UTSPPL have established dealer network with total nine dealers in major city of Nepal (i.e. Kathmandu, Lalitpur, Pokhara, Biratnagar, Janakpur, Dhangadi, Nepalgunj, Dang, Jhapa). Additionally, the company has three owned showrooms (one showroom for vehicles and two showrooms for spares parts) along with two owned service centres.

**About the Company**

United Traders Syndicate Private Limited (UTSPPL) was incorporated in June 18, 1971 by Dr. Vijay G. Vaidya as a sole distributor of Toyota vehicles for Nepal. The company is involved in trading Toyota vehicles, spare parts and services since 1967. In cars segment, they have variants of Etios car. In SUV segment, they have variants of Rush, Land Cruiser, Prado, Rav4, Fortuner and Innova Crysta. In commercial segment they deal with different variants of Hilux and Hiace. Share of the company is hold by three shareholders, Mr. Suraj Vaidya (60%), Mrs. Ritu Singh Vaidya (30%) and Mrs. Susan Vaidya Shrestha (10%).

**Brief Financial Performance during last 3 years:**

(Rs in Mn)

Particulars	FY17 (A)	FY18 (A)	FY19 (A)	H1FY20 (UA)
Income from operations	4,380	7,196	5,887	2,056
PBILDT	395	749	270	98
PAT	189	349	1.77	(23)
Overall gearing (times)	2.48	2.06	2.88	2.53
Interest Coverage (times)	3.98	3.94	1.15	0.90

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**Annexure 1: Details of the Facilities rated**

S. n	Facility/ Instrument	Amount	Rating
		(Rs. Million)	
1	Short Term Bank Facilities – Overdraft	313.50	CARE-NP A4+
2	Short Term Bank Facilities – Trust Receipt Loan	490.00	CARE-NP A4+
3	Short Term Bank Facilities – Pre and Post Shipment Loan	305.00	CARE-NP A4+
4	Short Term Bank Facilities – Demand Loan	711.50	CARE-NP A4+
5	Short Term Bank Facilities – (Adhoc)	300.00	CARE-NP A4+
6	Short Term Bank Facilities – Letter of Credit	940.00	CARE-NP A4+
7	Short Term Bank Facilities – Bank Guarantee	40.00	CARE-NP A4+
<b>Total Bank Facilities</b>		<b>3,100.00</b>	