

**Rating Rationale**  
**Advanced Automobiles Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.75	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	960.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>963.75</b> <b>(Reduced from Rs. 981.21 Mn.)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long term bank facilities and ‘CARE-NP A4’ assigned to the short term bank facilities of Advanced Automobiles Private Limited (AAPL).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities of AAPL factors in decline in total revenue in FY20 (Audited, refers to 12 months’ period ended mid-July 2020) and loss during the year coupled with stressed debt service indicators and leveraged capital structure. The ratings also factor in limited track record of operations, working capital intensive nature of operations, cyclical nature of the auto industry and high competition from other automobile players, exposure to volatile interest rates and exposure to regulatory risk related to automobile industry. The ratings, however, derive strength from experienced and resourceful promoters and company being part of Vishal Group of Companies; established brand and sole distributor of Renault SAS in Nepal; and established dealer network. The ratings also factor in improvement in total revenue and profitability in H1FY21 (Provisional, refers to 6 months’ period ended mid-January 2021), along with improved debt service indicators and infusion of equity by the promoters. Ability of the company to improve its revenue, profitability margins and overall solvency position will be the key rating sensitivities.

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

With the outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) imposed countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period sales of the company has been directly impacted in FY20 along with increased debtor levels. The expected positive economic movement after lockdown and demand in automobile sector is likely to increase the revenue of the company in current financial year 2021.

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

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Weaknesses**

***Financial risk profile marked by decline in revenue, net loss in FY20, however substantial improvement in profitability in H1FY21.***

Financial risk profile of the company in FY20 is characterised by decline in scale of operations and net loss, however the same has improved substantially in H1FY21. The total income of AAPL significantly declined by ~51% during FY20 mainly due to slowdown of automobile industry coupled with regulatory push back, evolving electronic vehicles and lockdown from mid-March 2020 to mid-June 2020 due to Covid-19. Further, PBILDT of the company declined by ~65% in FY20 coupled with decrease in PBILDT margin mainly due to decline in revenue and huge discounts offered to customers and dealers to liquidate inventory. However, with increasing demand of vehicles post Covid-19, revenue from sales of vehicles for H1FY21 improved to Rs. 899 Mn. Also, due to high demand of new model Renault vehicles, company was able to make better realizations which led to improvement in margins and profitability during H1FY21.

***Stressed debt service indicators and leverage capital structure at the end of FY20, however moderate debt service indicators the end of H1FY21***

The debt service coverage indicators were stressed with total debt to gross cash accruals of -ve 13.96x and interest coverage ratio of below unity in FY20 on account of lower PBILDT during the year. The company had leveraged capital structure marked by high overall gearing ratio of 10.35x at the end of FY20. However, with the improvement in PBILDT followed by low interest cost during H1FY21, interest coverage ratio has improved to 2.83x. Also, the overall gearing improved to 5.16x at the end of H1FY21.

### ***Limited track record of operations***

AAPL was incorporated in September 13, 2013 and started operation for the sale of Renault cars from October 2016. Thus, the company is having limited track record of four years into operations. However, the promoters have long track record in auto dealership business along with other group companies.

### ***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. Thus, the business depends heavily on working capital borrowings. During FY20, AAPL had inventory holding period of 162 days and operating cycle of 244 days. With increment of sales on credit during H1FY21, outstanding balance of debtors has further increased. The average utilization of working capital limit was ~63% during the last 12 months ended on mid-November 2020.

***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 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, Jeep etc. Further, competition is also intensified due to introduction of electric vehicles in the market. Due to high competition, dealers are forced to pass on discounts and exchange schemes to attract customer.

***Exposure to regulatory risk related to automobile industry***

The automobile industry in Nepal belongs to the highly taxed industry in Nepal. Additionally, circular dated November 6, 2018 issued by Nepal Rastra Bank has decreased cap on bank financing to 50% of value of vehicle used for personal purpose from 65% which slow down the demand growth in the passenger vehicle segment in Nepal.

**Key Rating Strengths*****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, the group companies are dealing with other automobile's sole distributorship / dealership from more than 9 years and have a wide dealer network of automobile distributorship. 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. He is also a director of NIC Asia Bank Limited. The promoters have infused equity amounting to Rs. 35 Mn during H1FY21 to support the operations and fund the losses of the company.

***Established brand, sole distributor of Renault SAS and established dealer network***

The company is presently the only authorized dealer in Nepal for Renault SAS. Renault is a French multinational automobile manufacturer which was founded 121 years ago and has worldwide presence in 134 countries and has sold 3.8 million vehicles in 2019. AAPL mostly imports Renault cars from Renault India Private Limited. Presently, AAPL has established dealer network of 12 dealers strategically located covering major parts of Nepal together with two showrooms and two service centres owned by the company.

**About the Company**

Advanced Automobiles Private Limited was incorporated in September 13, 2013 and started its operation from October 2016 as a sole authorized distributor for Renault SAS, France in Nepal. The company is

engaged in the sale of passenger vehicles of Renault, servicing of the vehicles and sale of spare parts. The company owns and operates two showrooms and two service centers that are situated in Kathmandu.

Brief financials of AAPL for last three years ending FY20 including H1FY21 are given below:

(Rs. Million)

For the year ended Mid July	FY18	FY19	FY20	H1FY21
	(Audited)	(Audited)	(Audited)	(Prov.)
Income from Operations	2,982	1,898	923	903
PBILDT Margin (%)	6.08	3.02	1.83	8.86
Overall Gearing (times)	6.71	5.25	10.35	5.16
Interest Coverage (times)	1.96	0.53	0.20	2.83
Current Ratio (times)	1.08	1.10	1.01	1.10
Total Debt/Gross Cash Accruals (times)	12.30	(13.96)	(10.54)	14.98

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

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	3.75	CARE-NP BB
Short Term Bank Facilities	Working Capital Limit	620.00	CARE-NP A4
Short Term Bank Facilities	Non-Funded Limit	340.00	CARE-NP A4
<b>Total</b>		<b>963.75</b>	