

**Rating Rationale**

**V. G. Automobiles Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.15	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	1,638.50 (Increased from 1,238.50)	CARE-NP A3 [A Three]	Reaffirmed
<b>Total Facilities</b>	<b>1,641.65</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BBB-’ assigned to the long-term bank facilities and ‘CARE-NP A3’ assigned 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 its moderate financial risk profile and capital structure marked by decline in revenue, profitability and debt service coverage indicators during FY20 (audited, refers to 12 months’ period ended mid-July 2020) due to impact of Covid-19, however, strong recovery in H1FY21 (Provisional, refers to 6 months’ period ended mid-January 2021). The ratings also factor in experienced and resourceful promoters with company being part of Vishal Group of Companies, established brand and sole distributor of Suzuki Motorcycle India P Ltd., Atul Auto Limited and Motul Lubricants in Nepal and moderate track record of operations with established dealer network. The ratings, however, are constrained by working capital intensive nature of operation, cyclical nature of the auto industry and high competition from other automobile players, exposure to volatile interest rates and regulatory risk related to automobile industry. Ability of the company to maintain the profitability, scale up its operations and improve its overall solvency position remain 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) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. With lockdown imposed, the operations of the company were significantly impacted with direct impact on revenue for FY20. 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 Strengths**

***Moderate financial risk profile marked by decline in revenue and profitability in FY20, however with strong recovery in H1FY21***

Financial risk profile of the company was moderate in FY20 characterised by decline in revenue due to the impact of lockdown imposed by the GoN on account of Covid-19 pandemic, however with substantial improvement in H1FY21. The total income of VGAPL declined by ~36% during FY20, which lead to decline in PBILDT and PBILDT margin of the company also. The margin of the company was further impacted by higher trade discount given by the company on sale price to its dealers during FY20 for enabling faster stock clearance. Mainly, due to decline in PBILDT of the company, PAT also declined in FY20. However, with increasing demand of vehicles post Covid-19, revenue from sales of vehicles for H1FY21 improved to Rs 805 Mn in H1FY21. Also, with lower utilization of working capital loans leading to lower interest cost during the period, profitability of the company has improved leading to better internal accruals for the period.

***Moderate capital structure with deteriorated debt service indicators at the end of FY20, however substantial improvement in H1FY21***

VGAPL has moderate capital structure marked by improvement in overall gearing ratio from 3.44x at the end of FY19 to 2.48x at the end of FY20 majorly due to decline in working capital loans at year end followed by improvement in networth of the company upon accretion of profits to reserves. This was further improved to 0.62x at the end of H1FY21 upon decline in working capital loans followed by infusion of additional fund in the form of share application money. Interest coverage ratio and total debt to Gross Cash Accruals deteriorated to 1.49x and 20.59x respectively in FY20. However, the interest coverage ratio and total debt to Gross Cash Accruals have substantially improved to 4.32x and 4.99x respectively during H1FY21.

***Experienced and resourceful promoters***

VGAPL derives strength from its strong promoter group belonging to Vishal Group of companies having a strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. Along with VGAPL, the group companies are dealing with other automobiles' sole distributorship/ dealership for more than 8 years and have a wide dealer network of automobile distributorship. Mr. Nikunj Agrawal, Managing Director, 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 additional equity amounting Rs. 40 Mn during FY19 and Rs. 26 Mn upto mid-January, 2021 to support operations of the company.

***Moderate track record of operations***

VGAPL incorporated in March 2013 started its commercial operation as a distributor of Suzuki Motorcycle India Private Limited's (SMIPL) motorbikes and spare parts in Nepal. The company is also an exclusive distributor of Atul Auto Limited's three-wheeler vehicles and its spare parts and also sells Motul lubricants in Nepal. Thus, the company is having moderate track record of seven years into operations.

***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 Limited and Atlantic Lubricants & Specialities Private Limited. SMIPL is a subsidiary of one of the world's leading two-wheeler manufacturer, Suzuki Motor Corporation, Japan. During FY18, VGAPL entered into agreement with Atul Auto Limited, India as an exclusive assembler and distributor of three-wheeler vehicles in Nepal. Atul Auto Limited is operating for more than 30 years and is one of the major players in the three-wheeler industry in India. Also, from November 2017, VGAPL had started selling Motul Lubricants in Nepal under distributorship agreement with Atlantic Lubricants & Specialities Private Limited. Being authorized dealer for various products from reputed companies provides VGAPL with high client base and large demand catering opportunity.

***Established dealer network***

VGAPL has established dealer network with total of 66 dealers for two wheelers, 23 dealers for three wheelers and 57 dealers for Motul lubricants. Additionally, the company owns three showrooms along with one service centre for two wheelers segment. The company sold 3,697 vehicles through dealers (including 265 three wheelers) and 543 vehicles through owned showrooms during FY20.

**Key Rating Weaknesses*****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 and inventory funding channels. During FY20, operating cycle of the company further deteriorated to 325 days from 183 days in FY19 mainly on account of increase in average inventory holding period as well as average debtor collection period. Accordingly, the average utilization of working capital limit was on the moderate side at ~87% during the last 12 months ended on mid-January 2021.

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

The demand for automobiles is inherently vulnerable to the economic cycle and is highly sensitive to interest rates. Also, there is stiff competition from other automobile dealerships which deals in all major automobile brands. Due to high competition dealers are forced to pass on discount and exchange scheme to attract customer as this is volume driven business. Further, the impact of COVID-19 is also expected to be seen in Nepalese economy with the slowdown of various industries including the automobiles sector in

the current financial year. However, considering the social distancing norms and resistance to travel in public vehicles, the demand for two-wheeler vehicles is expected to increase in future.

**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.

**About the Company**

V.G. Automobiles Private Limited was incorporated in March, 2013 by Mr. Nikunj Agrawal and his relatives. The company started its operations as a sole authorized distributor for SMIPL for their two-wheeler vehicles and 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.

Brief financials of VGAPL for last three years ending FY20 and H1FY21 are given below:

(Rs. Million)

For the year ended Mid July	FY18	FY19	FY20	H1FY21
	(Audited)	(Audited)	(Audited)	(Unaudited)
Income from Operations	1,488	1,880	1,211	810
PBILD Margin (%)	8.80	10.64	10.39	8.86
Overall Gearing (times)	4.76	3.44	2.48	0.62
Interest Coverage (times)	2.17	2.43	1.49	4.32
Current Ratio (times)	1.08	1.18	1.26	1.79
Total Debt/Gross Cash Accruals (times)	12.32	9.87	20.59	4.99

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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	3.15	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limit	818.50	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	820.00	CARE-NP A3
<b>Total</b>		<b>1,641.65</b>	