

## Punyata Trading Private Limited

### Rating

Facilities	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Short-Term Bank Facilities	660.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>660.00</b> <b>(Six Hundred Sixty Million Only)</b>		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP A4' to the short-term bank facilities of Punyata Trading Private Limited (PPL).

### Detailed Rationale & Key Rating Drivers

*The ratings assigned to the bank facilities of PPL are constrained by its short track record of operations, limited scope for growth in operational scale generally associated with a regional dealership nature of business and highly leveraged capital structure. The rating also factors in cyclical nature of the auto industry coupled with high competition from other players, working capital intensive nature of operations, exposure to volatile interest rates, and exposure to regulatory risk related to automobile industry, particularly the near-term impact of the import restriction for passenger vehicles announced by the Government of Nepal (GoN) till mid-July 2022.*

*The ratings, however, derive strength from experienced shareholders, established brand presence of Kia Motors in the market. Going forward, the ability of the company to profitably scale up the operations and effective management of working capital, with improvement in debtors' realization and liquidity position of the company will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Short track record of operations

PPL started its operations from June 2021 and therefore has a very short operational track. The company is only operational for less than a year and stabilization of business is yet to be established. The company sold 17 units in around the one and a half months of operations during FY21, recording Rs.80 Mn revenues. The sales had picked up during H1FY22, with 154 units sold amounting to Rs.731 Mn. The company is still in its nascent stages of operations and to achieve the envisaged scale of business, particularly in the intensely competitive Sport Utility Vehicle (SUV) segment remains to be seen.

##### Limited scope for growth in scale of operations

PPL commenced its operations as a regional dealer for Kia Motors Passenger Vehicles (PVs), majorly in Kathmandu City. Although it can sell its vehicles in other parts of Nepal as well, it remains a regional dealer and would have to compete with 10 other dealers for capturing market. As such, the company's scale of operations will remain limited to the extent of its region of sales with limited scope of subsequent growth post reaching a certain saturation level in that particular region.

##### Working capital intensive nature of operation marked by high LC backed creditors led to highly leveraged capital structure

Automobile dealership business has inherent high working capital intensity due to high inventory holding requirements. The company needs to maintain a certain level of inventory for display and high level of inventory to guard against supply shortages as the supply is totally dependent upon imports. Furthermore, all procurement from the distributor is backed by domestic letter

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

of credit. Thus, the business depends heavily on utilization of bank facilities, majorly the non-fund based. Although net operating cycle is usually low because of relatively higher creditor days, the company's reliance on using LC limits remains high as indicated by a high total outside liabilities to networth ratio of 17.43x times at the end of FY21 with total creditors (LC backed) of Rs.177.95 Mn, indicating high dependency on supplier terms.

### **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 with large number of players operating in market. Competition is also intensified due to introduction of electric vehicles, which have a lower duty/tax regime. Due to high competition, dealers are forced to provide discounts and schemes to attract customer, which put pressure on its profitability.

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

The demand in automobile sector is impacted by heavy import duty (which include custom duty, excise duty and value added tax) imposed on the import of automobiles which are still considered as luxury items in Nepal. Amid a slew of restrictions to limit outflow of foreign reserve, the Government of Nepal (GoN) recently decided to ban import of several non-essential items, which included jeeps, cars and vans, on April 26, 2022. Although the imposition is announced till mid-July 2022, continuation of the same for a longer period will have an adverse impact on the automobile trading industry. Dealership business of PPL remains exposed to similar policies of the GoN/Central Bank. This will remain a key monitorable.

### **Key Rating Strengths**

#### **Experienced promoters**

PPL derives strength from its experienced promoters with long experience in automobile sector in Nepal. Mr. Santosh Khatiwada, executive chairman, has nearly two decades of experience in the automobile industry, and is also the Managing Director of Shasheela Motors (dealer for commercial vehicles of Tata motors for Kathmandu and Bhaktapur) for the last seven years. In addition, he is also involved in heavy machineries, transportation and bus branding businesses, and is a Chairman in Buildcon Earthmovers Pvt. Ltd., Nepal Media Corp Pvt. Ltd., Harisha Engineering Pvt. Ltd. and Vice Chairman in Mahanagar Yatayat Pvt. Ltd.

#### **Increasing brand presence of Kia Motors in Nepal**

PPL has a dealership agreement with Continental Trading Enterprises Private Limited, authorized distributor for Kia Motors in Nepal, for dealership of Kia vehicles. Kia Motors, in a short span, has been able to capture a reasonable market share, particularly in the SUV segment. The new tech-oriented design and features of Kia passenger vehicles add to its appeal. Kia Corporation, founded in May 1944, is among Korea's oldest manufacturer of motor vehicles and produces more than 1.4 Mn vehicles a year at 14 manufacturing and assembly facilities in eight countries. These vehicles are sold and serviced through a network of more than 3,000 distributors and dealers covering 172 countries. As a regional dealer of Kia vehicles, PPL has an increasing demand catering opportunity in Nepal, which links the fortune of the company to the demand for Kia vehicles in the country.

### **About the Company**

Punyata Trading Private Limited, incorporated on February 15, 2021, is a regional dealer of Kia Motors passenger vehicles for Kathmandu district, located in Maharajgunj, Kathmandu. PPL is an authorized dealer of Continental Trading Enterprises Private Limited (distributor of KIA Motors Limited in Nepal). The company started its commercial operation since June 2021.

## Financial Performance

Particulars	2021 (1.5m, A)
Income from operations	80.29
PBILDT Margin (%)	1.18
Overall Gearing (times)	Nil
Interest coverage (times)	1.74
Current Ratio (times)	1.05
Total Debt to Gross Cash Accruals (times)	Nil

A: Audited

## Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	60.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	600.00	CARE-NP A4
<b>Total Facilities</b>		<b>660.00</b>	

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