

United Traders Syndicate Private Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Rating ¹	Rating Action
Short Term Bank Facilities	4,000.00	CARE-NP A3 [A Three] (Credit watch with developing implications)	Placed on credit watch with developing implications
Total Facilities	4,000.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has placed the rating of 'CARE-NP A3' assigned to the short term bank facilities of United Traders Syndicate Private Limited (UTSPL) on credit watch with developing implications.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of UTSPL has been placed on credit watch with developing implications factoring in the Government of Nepal's (GoN) announcement to extend the restriction in import of various types of automobiles till October 14, 2022, prolonging an uncertain operating environment for automobile traders in Nepal. Amid rising imports coupled with muted remittance inflows over the past year or so, the GoN continues to take several measures to restrict/discourage imports of certain non-essential items. Subsequently, the near term business prospects of the company are expected to be impacted by this supply constraint. Although the company currently has inventory which is likely to last till around October 2022, given the current state of affairs, continuation of the import restriction for a prolonged time beyond mid-October 2022 could materially impact the operational performance and the financial risk profiles of automobile traders including UTSPL. Furthermore, even after the removal of the restriction, when that happens, smooth procurement will depend on the limitations of the banking system to open new letters of credits. Amid the ongoing liquidity stress faced by the banking system coupled with the limited credit appetite of banks and financial institutions (BFIs) after a disproportionately high credit expansion over the last couple of years, opening of new letters of credit for imports, particularly for non-essential luxury items, could remain a challenge in the near-term. The woes of the automobile trading industry could exacerbate further as increased upward pressure on interest rates and increase in risk weights for personal hire-purchase loans to 150% from 100% could lead to a higher cost of ownership for new vehicles, negatively impacting its demand outlook over the near term. CRNL will resolve the rating watch once clarity emerges on the extent and scope of impact on UTSPL's business and its overall financial risk profile of the above measures.

The rating assigned to the bank facilities of UTSPL continues to derive strength from the company's satisfactory financial risk profile marked by growing trend in sales and profitability along with moderate capital structure, experienced and resourceful promoters, established track record of operations, association with strong brand as sole distributor in Nepal and presence of an established dealer network.

The rating, however, remains constrained by the company's working capital intensive nature of operations, exposure to volatile interest rate, foreign exchange rate fluctuation risk, cyclical nature of auto industry, high competition from other automobile players and exposure to regulatory risk related to the automobile industry.

Going forward, the ability of the company to profitably scale up its operations along with effective management of working capital, and improve its overall solvency position will be the key rating sensitivities. Furthermore, any new policies by the

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Government of Nepal regarding further tightening the imports, which could impact the business profile of the company will also be a key rating sensitivity.

Key updates

In FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022), the total operating income of UT SPL grew by 56.63% over FY21 (Audited, refers to the twelve-month period ended mid-July 2021) and stood at Rs. 7,619 Mn. PBILDT margin also improved to 11.06% in FY22 from 8.09% in FY21 boosted by increased price realizations coupled with favorable change in product mix. Consequently, interest coverage ratio improved to 3.83x in FY22 from 2.26x in FY21. The overall gearing ratio of the company, however, moderated to 2.46x at the end of FY22 from 2.30x at the end of FY21 due to increased working capital borrowings to cater growing scale of operations.

About the Company

United Traders Syndicate Private Limited (UT SPL) was incorporated in June 18, 1971 by Dr. Vijay G. Vaidya as a sole distributor of Toyota vehicles for Nepal. The group is involved in trading Toyota vehicles, spare parts and services since 1967. The company shares are owned by mainly three shareholders, Mr. Suraj Vaidya (60%), Mrs. Ritu Singh Vaidya (30%) and Mrs. Susan Vaidya Shrestha (10%).

Brief audited financials of UT SPL for FY19, FY20 and FY21 are given below:

(Rs. Million)

For the year ended Mid-July	FY19 (Audited)	FY20 (Audited)	FY21 (Audited)
Income from Operations	5,887	3,305	4,864
PBILDT Margin (%)	4.59	5.13	8.09
Overall Gearing (times)	2.84	2.86	2.30
Interest Coverage (times)	1.15	0.79	2.26
Current Ratio (times)	1.25	1.22	1.27
Total Debt/Gross Cash Accruals (times)	74.66	Negative	11.79

Detailed rating rationale of the company is available at www.careratingsnepal.com

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based Limit	3,060.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	830.00	CARE-NP A3
Short Term Bank Facilities	Proposed	110.00	CARE-NP A3
Total		4,000.00	

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About CARE Ratings:

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