

Rating Rationale

United Traders Syndicate Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	3100.00	CARE-NP A3+ [A Three Plus]	Assigned
Total Facilities	3,100.00		

Details of Facilities in Annexure 1

CRNL has assigned rating of ‘CARE-NP A3+’ to the short term bank facilities of United Traders Syndicate Private Limited (UTSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of United Traders Syndicate Private Limited (UTSPL) derives strength from established and long track record of operations, strong brand value of Toyota Motor Corporation, Japan and sole authorised distributor in Nepal. Further, the rating is supported by experienced & resourceful promoters, geographical coverage through dealer network, healthy financial performance, although volatile, over the period ended FY18 (refers to 12 months period ended Mid-July 2018) and comfortable debt coverage indicators.

The rating, however, constrained by deteriorating financial performance during H1FY19 (UA, refers to 6 months period ended mid-January 2019), leveraged capital structure, fortunes linked to performance of Toyota and working capital intensive nature of operations and exposure to volatile interest rates. The ratings are also constrained by foreign exchange fluctuating risk, cyclic nature of auto industry and competition from other automobile players and exposure to regulatory risk related to automobile industry.

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 Strengths

Established and long track record of operations

UTSPL 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.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

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

Toyota Motor Corporation (TMC) was established in 1937 and has 67 plants and manufacturing companies, 16 R&D sites and 169 distributors across the world as on March 31, 2018. Over years, Toyota have been able to build its strong brand equity. Toyota SUVs are symbol of high brand and prestige to elite community, top managers and business persons in Nepal. Being sole distributor of Toyota vehicles and established dealer network, UT SPL has high client base and large demand catering opportunity. On the other hand, the fortunes of the company are also linked to the performance of Toyota worldwide.

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

Geographical coverage through dealer network

UT SPL 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 owned three showrooms (one showroom for vehicles and two showrooms for spares parts) along with owned two service centres in Kathmandu.

Healthy financial performance, although volatile, over the period

The company derives its income from sale of vehicles, spare parts, accessories and oil, and servicing of vehicles. UT SPL has healthy financial performance over the period, however, due to cyclical nature of business its performance was volatile. Its total income increased substantially by 64.05% during FY18 over FY17 however, it was decreased by 8.61% during FY17 over FY16. PBIDLT and PBILD T margin of the company improved over the last three year ending FY18. The PBILD T margin improved to 10.48% during FY18 against 9.01% during FY17. The net profit of the company increased by 80.39% to Rs 340 Mn during FY18 from Rs 189 Mn during FY17.

Key Rating Weaknesses***Deteriorate overall financial performance during H1FY19***

UTSPL, PBILDT margin decreased to 6.01% in H1FY19 from 10.48% in FY18 mainly due to increase in foreign exchange rate leading to increase in the price of the vehicles and inability of the company to pass on increase in vehicle price to their customers due to high competition in the market. Similarly, PAT margin declined to 0.91% in H1FY19 from 4.73% in FY18. UTSPL was able to earn net profit of Rs 25 Mn during H1FY19 against Rs 340 Mn during FY18. Its interest coverage ratio declined to 1.48x in H1FY19 from 3.96x in FY18 and overall gearing ratio increased to 2.48x in H1FY19 from 2.08x in FY18.

Leveraged capital structure although comfortable debt coverage indicators

The overall gearing ratio of the company was moderate at 2.08x at the end of FY18 declined from 0-2.45x at the end of FY17 on back of accretion of profits to networth partially offset by increase in the debt levels. However, during H1FY19, overall gearing of the company increased to 2.48x mainly due to decline in networth of the company on back of proposed dividend of Rs 300 Mn. Total Debt/GCA was 5.7x in FY18 (8.76x in FY17) which increased to 10.32x in H1FY19. Further, the interest coverage ratio of the company was comfortable at 3.96x in FY18 which is marginally declined from 3.98x in FY17. Interest coverage ratio declined significantly to 1.48x in H1FY19 due to decline in PBILDT.

Working capital intensive nature of operation and exposure to volatile interest rate

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 delivery vehicle only against the letter of credit from banks. Thus, the business depends heavily on working capital borrowings. In FY18, UTSPL has inventory holding period of 39 days, average collection period of 93 days and high operating cycle of 130 days. Accordingly, its average utilization of working capital limit was moderate at around 79% during the last 12 months ended on Mid Jan 2019. Further, Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

Foreign exchange rate fluctuation risk

UTSPL 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. Hedging for the same is not been done which exposes UTSPL to the high risk associated with the fluctuation in foreign currency exchange rate. As a result of fluctuation in foreign exchange rate, the profitability of the company deteriorated significantly during H1FY19.

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

The demand for four wheelers is inherently vulnerable to the economic cycles and is highly sensitive to interest rates. Demand for four wheelers increases during period of high economy growth rate and low interest rate regime and vice-versa. Also there is stiff competition from automobile dealerships in Nepal. There are large number of players operating in market for four wheelers like Hyundai, Honda, Mitsubishi, Mazda, Renault, Nissan, Maruti Suzuki, Mahindra & Mahindra, Volkswagen, Skoda, Tata, Kia, Ford. Due to high competition, UTSPL are forced to pass on discount and commission to agents to attract customer as this is 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 considered 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.

About the Company

United Traders Syndicate Private Limited (UTSPL) 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	FY16 (A)	FY17 (A)	FY18 (A)	H1FY19 (UA)
Income from operations	4,792	4,380	7,185	2,772
PBILDT	379	395	753	167
PAT	198	189	340	25
Overall gearing (times)	2.77	2.45	2.08	2.48
Interest Coverage (times)	5.67	3.98	3.96	1.48

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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 A3+
2	Short Term Bank Facilities – Trust Receipt Loan	610.00	CARE-NP A3+
3	Short Term Bank Facilities – Pre and Post Shipment Loan	476.50	CARE-NP A3+
4	Short Term Bank Facilities – Demand Loan	360.00	CARE-NP A3+
5	Short Term Bank Facilities – (Adhoc)	300.00	CARE-NP A3+
6	Short Term Bank Facilities – Letter of Credit	950.00	CARE-NP A3+
7	Short Term Bank Facilities – Bank Guarantee	90.00	CARE-NP A3+
Total Bank Facilities		3,100.00	