

Rating Rationale

Vivek Automobiles Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	3,180.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	3,180.00		

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A3’ to the short term bank facilities of Vivek Automobiles Private Limited (VAPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of VAPL derive strength from moderate financial risk profile of the company marked by stagnant revenue, decline in profitability, moderate capital structure and debt service coverage indicators at the end of FY20 (Provisional, refers to 12 months period ended mid-July 2020), being sole authorized distributor of Royal Enfield Motorcycle, John Deere tractors and Piaggio three wheelers in Nepal which has a strong brand value and experienced and resourceful promoter group. The ratings also factor in long track record of operations with strong group presence and exposure in automobile dealership, significant market share of the brands dealt in Nepalese market and established marketing and dealer network across the country. The ratings, however, are constrained by impact of Covid-19 on the operations of the company majorly on the three wheeler segment and working capital intensive nature of operations. The ratings also factor in cyclical nature of the construction equipment and auto industry and high competition from other players, exposure to regulatory risk related to construction equipment and automobile industry and exposure to volatile interest rates.

Ability of the company to profitably scale up the operations of the company and effective management of working capital with improvement in debtor’s realisation and liquidity position of the company will remain the key rating sensitivities.

Impact of COVID-19 on the business of the company

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised 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 resulting into no growth in revenue during FY20. Major impact in sales has been in the three wheeler segment which witnessed decline of ~36% in FY20, however due to diversified product portfolio, the decline was offset by growth in the sale of John Deere Tractors and Royal Enfield Motorcycles. The expected economic slowdown due to the ongoing pandemic and the resulting impact on demand in automobile sector is likely to keep the near term revenue growth subdued. With lockdown being lifted up the operations, revenue and profitability of the

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

company is expected to be on the recovery path from the negative impact of Covid-19 in current financial year 2021.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced and resourceful promoter group

VAPL derives strength from its strong promoter group belonging to MV Dugar Group. MV Dugar Group is involved in diversified business like construction, automobiles trading, hydropower, insurance and banking. The group is one of the most prominent business house in Nepal in automobile sector and has its footprint across Nepal representing vast range of automobile companies in various segment which includes two wheeler vehicles, commercial vehicles, agri solution and construction equipment. VAPL has one promoter, Mr. Vivek Dugar, who is also the Vice Chairman of the MV Dugar Group. Mr. Vivek Dugar, aged 46 years has an experience of over 25 years in trade and industry. He is also the Chairman of Gurans Life Insurance Company Limited. Mr. Dugar is supported by a team of experienced professional in handling day to day operations of the company.

Long track record of operations with strong group presence and exposure in automobile dealership

The group has been into dealership of various brand of vehicles through a partnership firm for more than two decades. VAPL was incorporated in December 2015 and thereafter started its operations as a sole distributor in Nepal for various automobile brands. The company currently is the sole authorized distributor in Nepal for Royal Enfield Motorcycle, John Deere tractors and Piaggio three wheelers. The company is diversified in two wheeler, three wheeler and tractors segment.

Strong brand value of Royal Enfield (RE) Motorcycle, John Deere tractors and Piaggio Three wheelers and sole authorized distributor in Nepal with significant market share in the Nepalese market

VAPL is presently the sole authorized dealer in Nepal for Royal Enfield Motorcycle, John Deere tractors and Piaggio three wheelers. Royal Enfield operates in India, and over 60 countries around the world. Royal Enfield maintained its leadership position with more than 95% market share in the over 250-cc displacement sub-segment of motorcycles in India. Piaggio Vehicles Private Limited (PVPL) is a 100% subsidiary of Piaggio & C S.P.A of Italy, one of the global leaders in manufacturing three-wheelers and two-wheelers. The three wheeler commercial vehicles are manufactured from its plant in India which is operated by PVPL. Dealership for Piaggio under VAPL started in the year 2018 thus entering into three- wheeler segment and diversifying the product profile of the company. John Deere is the brand name of Deere & Company, an American corporation that manufactures agricultural, construction, and forestry machinery, diesel engines used in heavy equipment, and lawn care equipment. In 2019, it was listed as 87th in the Fortune 500 America's ranking and was ranked 329th in the global ranking. John Deere India Private Limited is a subsidiary of Deere & Company in India and started operations in the year 1998, with

manufacturing of tractors for sales in India and exports. Being an authorized dealer for various products from reputed companies gives VAPL a high client base and also large demand catering opportunity. The brands dealt by the company are among top brands in the Nepalese automotive market and have country wide presence coupled with significant market share in each category of vehicles.

Established marketing and dealer network across the country

VAPL has an established dealer network across Nepal with total of 18 dealers for three wheelers and 7 dealers for Royal Enfield two-wheelers. Additionally, the company also has 32 own operated showrooms located in different parts of Nepal. During FY20 majority of sales of the company were through showroom sales.

Moderate capital structure and debt service coverage indicators of the company at the end of FY20

Debt: Equity ratio of the company improved from 0.22x at the end of FY19 to 0.18x at the end of FY20 majorly due to increase in net-worth of the company on account of infusion of equity FY20 coupled with accretion of profit to net-worth. This was however, partially set off by increase in promoter loan from Rs. 17 Mn in FY19 to Rs. 50 Mn in FY20 to support operations of the company. Total gearing ratio of the company also improved from 4.23x at the end of FY19 to 2.05x at the end of FY20 on account of reduced working capital loans coupled with increase in net-worth. Interest coverage ratio of the company was moderate at 1.70x in FY20 which declined from 1.94x in FY19 due to decline in PBILDT earned in FY20. Total debt to GCA of the company was moderate at 9.82x in FY20 which improved marginally from 10.69x in FY19.

Key Rating Weaknesses

Moderate financial risk profile of the company marked by stagnant revenue, decline in profitability at the end of FY20

Financial risk profile of the company in FY20 is characterised by revenue being stagnant in FY20 on account of operations being impacted by lockdown imposed by the GoN due to Covid-19 pandemic. The total income of VAPL remained flat in FY20 as compared to FY19, however with decline in profitability margins. The decline in margins was majorly due to increase in direct costs in procurement of vehicles and construction cost of showrooms. PAT of the company declined in FY20 on back of decline in PBILDT. During 4MFY21, the company has achieved total net sales of Rs. 1,290 Mn.

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 of the company. The company has to maintain fixed level of inventory for display at its thirty two showrooms across Nepal coupled with high level of inventory to guard against supply shortages as the supply is totally dependent upon imports. Further, the vehicles dealt by the company are of high value which lead to high quantum of inventory built up. Apart from this, the vehicle

manufacturers/ suppliers deliver vehicle against the letter of credit. Thus, the business depends heavily on working capital borrowings and inventory funding channels. During FY20, the average operating cycle of the company deteriorated from 282 days in FY19 to 323 days in FY20 mainly on account of increase in debtor collection period coupled with increase in inventory holding period. Accordingly, the average utilization of working capital limit was high at ~90% during the last 12 months ended on mid-August 2020.

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

Vivek Automobiles Private Limited (VAPL) is a private limited company incorporated on December 31, 2015 and is part of the MV Dugar Group of Nepal.

Brief Financial Performance during last 3 years is given below:

(Rs. In Million)

For the year ended Mid July,	FY18	FY19	FY20
	Audited	Audited	Provisional
Income from Operations	3,210	4,196	4,190
PBILD Margin (%)	11.05	9.42	8.71
Overall Gearing (times)	3.30	4.23	2.05
Interest coverage (times)	2.28	1.94	1.70
Current Ratio (times)	0.64	0.56	0.71
Total Debt/Gross Cash Accruals (times)	8.38	10.69	9.82

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Annexure 1: Details of the facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limits	1,820.00	CARE-NP A3
Short Term Bank Facilities	Non Fund Based Limits	1,360.00	CARE-NP A3
Total		3,180.00	