

United Traders Syndicate Private Limited

Ratings

| Instrument / Facilities | Amount (Rs. In Million) | Rating ^[1] | Rating Action |
|----------------------------|-------------------------|---------------------------|---------------|
| Short Term Bank Facilities | 3,100.00 | CARE-NP A4+ [A Four Plus] | Reaffirmed |
| Total Facilities | 3,100.00 | | |

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A4+' assigned to the short-term bank facilities of United Traders Syndicate Private Limited (UTSPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of United Traders Syndicate Private Limited (UTSPL) continues to be constrained by below average financial risk profile marked by decline in total operating income and net profitability, leveraged capital structure of the company, working capital intensive nature of operations and foreign exchange rate fluctuation risk. The rating also factors in cyclical nature of the auto industry and high competition from other automobile players, exposure to regulatory risk related to automobile industry.

The rating, however, derives strength from experienced & resourceful promoters with long track record of operations, established, Association with reputed brand as sole authorised distributor in Nepal and presence of established dealer network.

The ability of the company to profitable scale up its operations and improvement in its overall solvency position will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile marked by decline in revenue and net profit

Company derives its income from sale of vehicles, spare parts, accessories and oil and servicing of vehicles. In FY20, income from sale of motor vehicles contributed 90.08% (Rs. 2,947 Mn) of the total income; while income from servicing, sale of spare parts, accessories, lubricants and other income contributed only 9.92% (Rs. 325 Mn). The total income of UTSPL declined by 44% during FY20 to Rs. 3,271 Mn from Rs. 5,861 Mn in FY19. The decline in sales revenue in FY20 was mainly on account of decrease in units sold from 676 units in FY19 to 310 units in FY20 on account of COVID 19 due to which the commercial segment of vehicle got majorly impacted.

Accordingly, PBILDT of the company declined to Rs. 170 Mn during FY20 as compared to Rs. 270 Mn in FY19. However, PBILDT margin remained stable at about 5% in FY19 & FY20. The company reported net loss of Rs. 47 Mn during FY20 as compared to net profit of Rs. 1.77 Mn in FY19. Gross cash accruals also declined substantially during FY20 to negative Rs. 40 Mn as compared to Rs. 28.55 Mn in FY19.

The overall gearing ratio of the company remained stable and stood around 2.90x at the end of FY19 & FY20. However, at the end of 9MFY21, the overall gearing of the company improved to 2.23x mainly due to decline in total debt as well as increase in networth due to accretion of profit.

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

UTSPL's debt service coverage indicators stood stressed marked by interest coverage ratio and Total Debt to Gross Cash Accruals (GCA) at below unity and negative for FY20 (FY19: 75.86x). Interest coverage improved to 2.12x in 9MFY21 due to increase in PBILDT of the company.

Current year performance:

The company achieved sales of Rs. 3,527 Mn during 9MFY21 ending on Mid-April 2021 and net profit of Rs. 87.55 Mn with the PBILDT margin of 7.96%.

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. 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 delivers vehicle only against the letter of credit. Thus, the business operations depend heavily on working capital borrowings. During FY20, UTSPL had inventory holding period of 87 days (FY19: 43 days) and average collection period of 143 days (FY19: 102 days). The overall operating cycle during FY20 increased to 224 days from 138 days in FY19 due to increase in average collection period and inventory days. The average collection period also increased due to delay in realisations from banks for the vehicles financing. Accordingly, its average utilization of working capital limit was moderate at around 80.82 % during the last 12 months ended on March 2021.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject 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. Company had not taken any measures to hedge itself from foreign currency payment such as forward exchange contract, option which exposes UTSPL to the high risk associated with fluctuation in foreign currency exchange rate.

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. There are large number of players operating in market like Hyundai, Honda, Toyota, Nissan, Volkswagen, Ford, TATA Motors, and Jeep etc. Competition is also intensified due to introduction of electric vehicles in the market which seems to be a viable option to customers on account of eradication of load-shedding in the country coupled with attractive incentives from government. Due to high competition, dealers are forced to pass on discounts and exchange schemes to attract customer since it is a 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 taken as luxury items in Nepal. Additionally, Central Bank of Nepal 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. Furthermore, due to expected slowdown in overall economy because of COVID-19 and with an objective to safeguard the balance of foreign exchange reserve, GoN banned the import of various items including vehicles of value exceeding USD 50,000 until further notice via press release as on March 31, 2020.

Impact of Covid-19 on the business of the company

The outbreak of COVID-19 has impacted Nepal as well with Nepal reporting its first case on January 24, 2020 has led to recurring countrywide lockdown by Government of Nepal (GoN) has disrupted the smooth operation of the company. The impact of the COVID-19 is expected to be seen in Nepalese economy with the slowdown of various industries including the automobiles sector due to which the financial performance of the UT SPL in terms of the revenue, profitability, cash flow and debt repayment capability is likely to be negatively impacted.

Key Rating Strength

Experienced and resourceful shareholders with long track record of operations

UTSPL was incorporated in June 1971 and started its operations 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. UTSPL derives strength from its strong shareholders and being a part of the Vaidya's Organization of Industries and Trading Houses (VOITH), which have 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 UTSPL since last 30 years. He is past President of Federation of the Nepal Chamber of Commerce and Industries (FNCCI) Chamber of Commerce. Mrs. Ritu Singh Vaidya, wife of Mr. Suraj Vaidya, is the managing director of UTSPL since last 10 years. She looks after day-to-day operations of the company along with the experienced management team.

Association with strong brand as sole distributor in Nepal

UTSPL is the authorized distributor of Toyota Motor Corporation (TMC) which has been the market leader in passenger car segment. Being sole authorized distributors of Toyota vehicles and established dealer network, UTSPL has high customer base and large demand catering opportunity. On the other hand, the fortune of the company is also linked to the performance of Toyota worldwide.

Established dealer network

UTSPL have established dealer network with total eight dealers in major cities of Nepal (i.e. Kathmandu, Lalitpur, Pokhara, Biratnagar, Janakpur, Dhangadi, Nepalgunj, Jhapa). Additionally, the company has three owned showrooms (one showroom for vehicles and two showrooms for spares parts) along with two owned service centres. The company has an integrated mode of operations, functioning in various verticals of automobile dealership business to provide one stop solution to its customers. It operates service stations, sells spare parts, and has tie-ups for vehicle finance and insurance. This allows it to provide a comprehensive range of services to the customer at a single point.

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 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 Financial Performance during last 3 years:

(Rs. In Mn)

| Particulars | FY17 (A) | FY18 (A) | FY19 (A) | FY20 (A) |
|---------------------------|----------|----------|----------|----------|
| Income from operations | 4,380 | 7,196 | 5,887 | 3,305 |
| PBILDT | 395 | 749 | 270 | 170 |
| Overall gearing (times) | 2.45 | 2.03 | 2.84 | 2.84 |
| Interest Coverage (times) | 3.98 | 3.94 | 1.15 | 0.79 |
| Current Ratio (times) | 1.19 | 1.27 | 1.25 | 1.22 |
| Total Debt to GCA (times) | 8.76 | 5.76 | 74.66 | (49.16) |

Annexure 1: Details of Instrument / Facilities

| Name of the Instrument / Bank Facilities | Type of the Facility | Amount (Rs. in Million) | Rating assigned |
|--|-----------------------|-------------------------|-----------------|
| Short Term Bank Facilities | Working Capital Limit | 2,120.00 | CARE-NP A4+ |
| Short Term Bank Facilities | Non-Fund Based Limit | 980.00 | CARE-NP A4+ |
| Total | | 3,100.00 | |

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