Autoways Private Limited

August 2018

Summary of rated instruments:

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term loans	229.00	[ICRANP] LBB (Assigned)
Short-term, Non-fund based – LC	1,140.00	[ICRANP] A4+ (Assigned)
Short-term, Fund based – STL (within LC Limits)	(912.00)	[ICRANP] A4+ (Assigned)
Short-term, Fund based – Overdraft	10.00	[ICRANP] A4+ (Assigned)
Short-term, Non-fund based – BG	2.00	[ICRANP] A4+ (Assigned)
Total	**1,381.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L Double B) to NPR 229-million long term loans (including proposed limits) of Autoways Private Limited (APL or the company). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four Plus) to the NPR 1,152-million short-term loan limits (fund based as well as non-fund based) of APL.

Rationale

The rating assignment factors in the long track record of the company in the automobile dealership business with strong market share in its area of operations; diversified presence across automotive segments like PV (Passenger Vehicles), CV (Commercial Vehicles) and CE (Construction Equipment) and financial flexibility provided by the promoters in the past in the form of short term advances and equity infusion.

The ratings, however, are constrained by the high competitive pressures in the regional automobile dealership industry; inherently thin operating margin and working capital intensive nature of the business; leveraged capital structure and modest debt coverage indicators. Additionally, the recent increase in taxes in the PV segment, regulatory cap on bank financing at 65% and increasing cost of bank borrowings might impact demand growth in this segment thereby impacting revenue growth prospects and profitability.

Going forward, the company's ability to sustain growth and profitability amid challenges imposed by increased taxes in PV and inherent cyclicality in CV segment will remain the key rating sensitivities in the near to medium term. Also, prudent working capital management remain crucial for APL to improve its capital structure from current level.

Key rating drivers

Credit strengths

**Diversified presence across multiple automotive segments with strong market share in its area of operations - ** APL is an authorized dealer of Toyota branded PVs and minibuses; Eicher branded buses and trucks and Komatsu heavy equipment in its area of operations. APL is sole dealer of Toyota, Eicher and Komatsu in its area of operations. Diversification across segment has helped company in offsetting some cyclicality associated impact within CV segment, which alone accounted for 67% of APL's revenue during FY18[1]. Hence, supported by growth in PV and CE segment, the company was able to report 20% revenue growth in FY18 (also, 20% CAGR in last three years) despite largely stagnant growth in CV segment during the year. Going forward, APL's ability to further diversify revenue streams by adding new models/segments would remain a key monitorable.

Established track record of the company in auto dealership business and well networked promoter/management - APL has been in auto dealership business since 2002 and hence has adequate track record in the business. It has been gradually adding up to the lines of product under PV and CV segment and has stronghold in Pokhara region from where it started its operations. The promoter and management are well networked with key stakeholders in auto dealership business which also provides some comfort. Moreover, in the recent past, the promoters have provided timely financial assistance in the form of equity and short-term loans to ease liquidity pressure and support working capital, which lends additional comfort.

Credit Challenges:

Leveraged capital structure and modest coverage indicators; high working capital intensity– APL's capital structure is stretched with high gearing of ~17x as on mid-Jul-18 despite equity infusion of NPR 45 million in FY18. High dividend payout (~84% in last three years[2]) has also impacted the capital position of the company. Being a working capital-intensive business, majority of funding requirement in automotive dealership is primarily for inventory financing. APL's inventory holding periods are at elevated level (71 days for FY17 increasing to 101 days in FY18) resulting in high working capital borrowings and weak coverage indicators (interest cover of 1.6x and Total-debt/OPBIDTA of 6.3x for FY18). APL's capital structure and coverage indicators are likely to remain stretched over the medium term, given thin cash accruals and elongated working capital cycle (higher working capital debt).

Increase in taxes and cap on bank financing could impact demand growth in PV segment; cyclicality and increasing bank rates could impact both CV and PV segment – PVs are already a highly taxed commodity in Nepal with further sharp increment in taxes for FY19. Additionally, cap on bank financing at 65%[3] by banking sector regulator could slow down demand growth in the segment. Moreover, bank interest rates have swiftly increased in last two years which coupled with inherent cyclicality in auto dealership (especially in CV segment) could constrain revenue growth for APL.

Intense competitive pressures, especially in domestic CV industry – Stiff competition from dealerships of incumbents like TATA (from Tata Motors Limited) as well as from other regional dealers constrains pricing flexibility. Over the past few years, APL has underperformed the underlying CV growth in the segment which remain an area of concern. APL's PV segment is relatively less competitive given the low competitors in the niche (premium) market to which Toyota branded vehicles caters.

Inherently low operating margins– Inherently low value addition and intense competition in the auto dealership business has resulted in low operating margins for automobile dealerships. Additionally, high margin businesses such as servicing and spare parts business are booked in other group companies which limits the scope for margin expansion. APL's return indicators are also constrained because of high working

[1] FY18 numbers are unaudited and based on provisional data provided by management.
[2] Including provisional figures for FY18.
[3] Started from 50% in March 2017 vs. no caps earlier; later moderated to 65% from August 2017

capital intensity apart from thin operating margin. Due to leveraged capital structure and high interest expense, its net margin is expected to remain below 1.0% level over the medium term.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below:

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:

Incorporated in 2002, Autoways Private Limited (APL) is a regional dealer of Toyota and Eicher vehicles and Komatsu construction equipment. The company holds dealerships of Toyota vehicles for Gandaki & Narayani Zones and additionally for Butwal City while for Eicher vehicles, it holds dealership for Gandaki, Narayani, Dhaulagiri and Lumbini Zones. The company is also the dealer of Komatsu heavy equipment for Gandaki and Dhaulagiri Zones. Mr. Narayan Prasad Poudel is the Managing Director and the sole shareholder of the company.

APL works in collaboration with its sister companies which are engaged in selling of genuine spares/accessories and servicing of Toyota, Eicher and Komatsu vehicles. The company has three showrooms/sales outlets (one each in Pokhara, Narayanghat and Butwal) while its sister concerns operate service centers in conjunction with the showrooms. The company has relatively strong foothold in Gandaki region from where it started its operations.

Key financial indicators of APL:

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Provisional)
Operating Income-OI (NPR Million)	2,096.8	2,358.5	2,825.4
Profit After Tax (NPR Million)	15.8	11.3	17.5
OPBDITA/OI (%)	2.0%	2.7%	3.2%
ROCE (%)	12.9%	12.8%	15.3%
Total Debt/TNW (times)	15.9	20.2	8.5
Total Outside Liabilities/ TNW (times)	39.3	38.1	16.6
Total Debt/OPBDITA (times)	8.9	6.2	6.3
Interest Coverage (times)	2.4	1.7	1.6
DSCR (times)	1.9	1.3	1.3
NWC/OI (%)	16%	13%	19%

Annexure-1: Instrument Details

Instrument	Rated amount (NPR Million)	Rating assigned
Existing Term Loans (including HP loans)	29.00	[ICRANP] LBB
Existing- Letter of Credit (LC)	820.00	[ICRANP] A4+
Existing Short-Term Loans (STL)*	(656.00)	[ICRANP] A4+
Existing Overdraft	10.00	[ICRANP] A4+

Proposed Term Loans (unallocated)	200.00	[ICRANP] LBB
Proposed LC enhancement (unallocated)	320.00	[ICRANP] A4+
Proposed STL enhancement (unallocated)*	(256.00)	[ICRANP] A4+
Proposed Bank Guarantee (BG)	2.00	[ICRANP] A4+
Total	**1,381.00**	

** These are complimentary limits to LC limit.*

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About ICRA Nepal Limited:

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was incorporated on November 11, 2011 and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a Technical Support Services Agreement, which envisages ICRA helping ICRA Nepal in such areas as rating process & methodologies, analytical software, research, training, and technical & analytical skill augmentation.

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