

## G.O. Automobiles Private Limited: Short-term rating downgraded; Long-term rating assigned

November 06, 2023

### Summary of rating action

Instrument (Amount in NPR million)	Previous rated amount	Current rated amount	Rating Action
Long-term loan limits	-	140	[ICRANP] LBB; assigned
Short-term loan limits	1,060	920	[ICRANP] A4; downgraded from [ICRANP] A3+
<b>Total</b>	<b>1,060</b>	<b>1,060</b>	

### Rating action

ICRA Nepal has assigned long-term loan rating of G.O. Automobiles Private Limited (GAPL) at [ICRANP] LBB (pronounced ICRA NP L double B) and downgraded the company's short-term loan rating to [ICRANP] A4 (pronounced ICRA NP A Four) from [ICRANP] A3+ (pronounced ICRA NP A three Plus).

### Rationale

The rating downgrade is mainly factored by significant decline in the company's scale, operational profitability and overall financial profile after FY2021, following the shutdown of Ford's OEM plant in India. Although GAPL continued the import of premium brands from Thailand, the company was not able to replace the supply of its flagship brands like Figo and EcoSport resulting in a significant decline in GAPL's revenues and increased product concentration risk. The revenue decline was further exacerbated by cross-cutting demand moderation across multiple sectors of the economy triggered by liquidity crunch and high interest rates in banking sector. Rating concerns also emanate from the spike in working capital intensity resulting from sales decline, continuation of relatively higher level of debtor/inventory and relatively higher proportion of aged debtors. Although the company's working capital loans remains within the drawing power as of mid-July 2023, the continuation of dividend payout despite sales moderation has lowered the liquidity cushion for the company. Further, the company continues to face intense competition from dealers of other established brands in the Nepalese passenger vehicle (PV) sector.

Nonetheless, the rating takes comfort from the company's relatively low gearing level and strong ownership from the resourceful Golchha group, which has its presence across multiple business sectors in the country.

Going forward, GAPL's ability to arrest the decline in revenue/margins, grow and diversify its revenue sources, manage the working capital and maintain adequate liquidity in the interim will remain the key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Adequate capitalization profile** – GAPL has reduced the borrowings in line with declined turnover which has kept the gearing level controlled (TD/TNW of ~0.3 times and TOL/TNW of ~0.4 times as of FY2022 and FY2023 end). However, given the significant impact in the operating profitability, TD/OPBDITA has deteriorated sharply.

**Financial flexibility as part of the Golchha Group** – GAPL is a part of the resourceful Golchha Group which has an established presence in diverse industries of Nepal including manufacturing, trading, vehicle assembly, etc. The experienced profile of director and management team also remains a positive aspect. However, incremental dividend policy will remain a monitorable as it is likely to strain future liquidity position of the company.

## Credit challenges

**Scale decline following discontinuation of key models** – GAPL’s revenue has declined steadily in last two fiscal years (~52% in FY2022 and ~-50% in FY2023), following the shutdown of Ford plants in India. The Indian facility had been manufacturing GAPL’s best-selling models viz. EcoSport, Figo, etc. Closedown of Indian facility has discontinued the supply of such models sharply affecting GAPL’s revenue. The import of premium priced models like Ranger, Everest, etc from Thailand did not make up for the loss of revenues from best-selling brands. GAPL’s revenue decline has been further exacerbated by ongoing demand slowdown in the Nepalese economy and automobile industry, higher borrowing rates and tighter bank financing. The near term demand outlook for GAPL is also expected to be modest.

**Stressed coverage metrics** – Since the company reported operating loss in FY2023, its interest coverage ratio (ICR) declined sharply to ~0.8 times vs. ~2 times in FY2022. However, the DSCR was supported by non-operating income (largely comprising of income from Ford India). The impact on debt coverage metrics was also heightened by the increased borrowing rates.

**Stretched liquidity and aged debtors** – GAPL’s working capital intensity (net working capital to operating income ratio) had spiked (~92% in FY2023 viz. ~53% in FY2022) as a combined result of dip in operating income as well as escalated working capital cycle (277 days in FY2023 vs. 186 days in FY2022). Liquidity remains strained because of relatively high inventory and debtor levels. Higher portion of aged debtors (~65% of total debtors as of mid-July, 2023 are over 90 days) also increases the receivable risk. The continuation of dividend outflow and sizeable investment tied up in hire purchase financing intermediary amid the reduced operational cashflows has also increased liquidity concerns. These outflows led to an increased reliance on bank debts as reflected in higher utilisation of drawing power at ~94% as of mid-July 2023.

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

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### Link to the previous rating rationale:

[Rationale BLR Surveillance G.O. Automobiles April 2022](#)

## About the company

Incorporated in 2007, G.O. Automobiles Private Limited (GAPL) is the national dealer for Ford branded vehicles for Nepal. The company is also involved in selling the genuine spares/accessories and servicing of the Ford brand vehicles. GAPL is promoted by Mr. Akash Golchha, who is also the company’s major shareholder and managing director while other shareholders are Mr. Shekhar Golchha and Mr. Lokmanya Golchha.

## Key financial indicators

	FY2019 Audited	FY2020 Audited	FY2021 Audited	FY2022 Audited	FY2023 Provisional
Operating income (OI; NPR million)	3,939	2,676	3,442	1,652	830
OPBDITA/OI (%)	5.0%	6.4%	7.9%	3.9%	-3.9%
Total debt/Tangible net worth (TNW; times)	0.6	0.5	0.5	0.3	0.3
Total outside liabilities/TNW (times)	0.7	0.6	0.7	0.4	0.4
Total debt/OPBDITA (times)	3.3	3.2	2.2	5.0	-7.8
Interest coverage (times)	2.1	2.8	6.4	2.0	-0.8
DSCR (times)	2.0	2.4	5.9	3.7	3.1
Net working capital/OI (%)	30%	44%	39%	53%	92%

Source: Company data

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