Omni Motors Private Limited: Ratings reaffirmed

May 27, 2024

Summary of rating action:

Instrument (Amounts in NPR million)	Previous rated amount	Current rated amount	Rating action
Long term loan limits	0.5	450.0	**[ICRANP] LB-**; reaffirmed
Short term loan limits	1,215.0	875.2	**[ICRANP] A4**; reaffirmed
Total	**1,215.5**	**1,325.2**	

Rating action

ICRA Nepal has reaffirmed the long-term rating of **[ICRANP] LB-** (pronounced to ICRANP L B minus) to the long-term loan limits of Omni Motors Private Limited (OMPL). ICRA Nepal has also reaffirmed the short-term rating of **[ICRANP] A4** (pronounced ICRA NP A four) to the company's short-term loan limits.

Rationale

The ratings continue to remain constrained by the company's weak financial and liquidity profile, exacerbated by the sharp revenue degrowth in recent years along with sustained pressure over operating profit margins (OPM). While the company reported ~69% and ~24% revenue degrowth during FY2023 and 9MFY2024 respectively, along with decline in OPM to ~4% in 9MFY2024 from ~13% in FY2022, the debt levels have reported much lower corrections. This, along with spiked borrowing rates during FY2023, led to sub-par debt servicing indicators with ICR of 0.4 times and DSCR of 0.6 times (aided by non-operating income) in FY2023. Further, the added repayment burden of the recently converted working capital loan to permanent working capital loan has led to further weakening in DSCR to 0.1 times in 9MFY2024; nevertheless, incremental term loans through refinancing of existing fixed assets supported the company's debt servicing. The company's liquidity profile also remains highly stretched with working capital intensity (net working capital to operating income ratio) of ~226% in 9MFY2024 (~65% in FY2022), as a combined result of further elongation of working capital cycle and major dip in the revenues. Further, the proposed tenure extension of the company's matured preference shares also remains a key credit monitorable; redemption of the same over the near term would adversely impact OMPL's liquidity and capital structure. The company's limited presence within the competitive and cyclical commercial vehicle (CV) segment along with high product concentration risks, also continues to remain the key rating concerns. Furthermore, ICRA Nepal expects timely and adequate funding support from the promoters to aid over the expected exigencies and any major deviations could have a downward pressure over the assigned ratings.

Nonetheless, the ratings continue to factor in the good brand recognition of the Bharatbenz CVs in Nepal and the fact that OMPL is a part of the Omni Group which has an established operation (>30 years) in automobile trading/financing and related sectors. Going forward, the company's revenue/margins trajectory, along with improvements in its capital structure/coverage indicators and working capital cycle would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Part of the Omni Group with experienced promoters – The company is a part of the Omni Group which has an established presence in the automobile trading/financing and related sectors. The Group's hire-purchase financing unit viz. Omni Private Limited has been operational since 1988. The Group's extensive track record in the automobile industry as well as experienced promoters, along with good brand recall for Bharatbenz, also remain the positives.

Credit challenges

Major revenue/margin pressures in recent years – Amid the ongoing economic slowdown and demand cyclicality, OMPL reported a major revenue degrowth of ~69% in FY2023 and ~24% (annualised) during 9MFY2024. The reduced scalability has led to significant decline in the company's OPM to 4.0% in 9MFY2024 from 12.7% in FY2022. The company also lost a chunk of its market share during CY2023 (~10% vs. ~15% in earlier years) and its ability to recover the same will remain a key monitorable. With the sharp decline in vehicle sales, the revenue now remains highly concentrated on spare parts/servicing, which accounted for ~50% of revenues during 9MFY2024. Further, the company's reliance on heavy truck segments (mostly 2523C model) continue to remain high at ~40% of 9MFY2024 revenues.

Weak financial profile and coverage indicators – While OMPL's gearing remains modest at 2.6 times as of mid-April 2024, the debt level remains significantly high as against the operating profit as reflected in total debt to OPBDITA of ~53 times (4.5 times in FY2022). Given the minimal reduction in debt levels (vis-à-vis the revenue trajectory), the company's interest coverage ratio (ICR) and debt service coverage ratio (DSCR) remained muted at 0.2 times and 0.1 times, respectively, for 9MFY2024. While debt servicing was supported by freshly availed term loans through refinancing of existing fixed assets, the company's ability to maintain the timely repayment behaviour over the near to medium term will remain a key rating sensitivity. Going forward, OMPL's ability to generate adequate revenue/margins, while controlling the debt levels, will remain crucial.

Sharp elongation in working capital cycle – The automobile dealership industry (especially the CV segment) is generally highly working capital-intensive in nature. OMPL's major customer segment i.e., the contractors, who usually prefer flexible credit period, resulted in a spiked debtor days of ~274 in 9MFY2024 as against ~94 days in FY2022. Further, the inventory has piled up significantly amid the demand slowdown (inventory days of ~725 in 9MFY2024 as against ~154 in FY2022). Accordingly, the company's working capital intensity has sharply spiked to ~226% during 9MFY2024 from ~65% in FY2022.

Intense competition in the cyclical industry and moderate track record – The company faces stiff competition from the dealerships of established players like Tata Motors Limited and Eicher Motors Limited, among others. These key competitors offer a relatively wider range of products, and the pricing of these vehicles is also relatively lower than Bharatbenz in similar segments. This, along with the cyclicality in automotive demand for the CV segment, could impact its operational profile. OMPL started operations from FY2014 and is currently operating through 11 own sales outlets across the country, which remains relatively lower vs. the competitors.

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

Link to the applicable criteria:
Corporate Credit Rating Methodology

Link to the previous rating rationale:
Rationale-Omni-Motors-Private-Limited-BLR-Surveillance-December-2022

About the company

Established in 2013, Omni Motors Private Limited (OMPL) is the national dealer of Bharatbenz commercial vehicles for Nepal. OMPL's registered office is in Birgunj, Parsa-13 and it currently operates through 11 self-owned showrooms across the country. The company is owned by five individuals viz. Mr. Rajindra Kabra, Mr. Dipankar Kabra, Mr. Vinay Kabra, Mr. Udayan Kabra and Mr. Sandeep Kumar Mohta. Mr. Rajindra Kabra is the Chairman of the company.

Key financial indicators

	FY2020	FY2021	FY2022	FY2023	9M FY2024
	Audited	Audited	Audited	Audited	(Provisional)
Operating income (OI; Revenues in NPR million)	1,412	2,011	2,281	698	400
OPBDITA/OI (%)	10.9%	11.7%	12.7%	7.3%	4.0%

	FY2020 Audited	FY2021 Audited	FY2022 Audited	FY2023 Audited	9M FY2024 (Provisional)
Total debt/Tangible net worth (TNW) (times)	3.2	2.2	2.4	2.3	2.6
Total outside liabilities/TNW (times)	3.8	3.1	3.3	3.2	3.6
Total debt/OPBDITA (times)	7.1	4.3	4.5	22.8	53.3
Interest coverage (ICR; times)	1.7	3.3	3.2	0.4	0.2
DSCR (times)	1.6	2.6	2.6	0.6*	0.1
Net working capital/OI (%)	82%	56%	65%	183%	226%

Source: Company data

** DSCR was higher than ICR for FY2023, on account of increased non-operating income (mainly the reversal of undistributed staff bonus of FY2022).*

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About ICRA Nepal Limited

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