

**Rating Rationale**  
**Paramount Motors Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	30.00	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	990.00	CARE-NP A3 [A Three]	Assigned
<b>Total Facilities</b>	<b>1,020.00</b>		

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the proposed long term bank facilities and ‘CARE-NP A3’ to the short term bank facilities of Paramount Motors Private Limited (PMPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of PMPL derives strength from being sole authorized distributor of MG vehicles in Nepal which has a strong brand value, experienced and resourceful promoter group, financial risk profile marked by growth in revenue and profitability in FY20 (Unaudited, refers to 12 months period ended mid-July 2020), moderate capital structure of the company at the end of FY20 and established dealer network of the company. The ratings, however, are constrained by short track record of operations, impact of Covid-19 on the operations of the company and working capital intensive nature of operation. The ratings also factor in cyclical nature of the auto industry and high competition from other automobile players, exposure to regulatory risk related to automobile industry and exposure to volatile interest rates. Ability to profitably scale up the operations of the company, maintain profitability margins and overall solvency position with effective management of working capital 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) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) imposed countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period sales of the company has been directly impacted in FY20 along with increased debtor levels. 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. The operations, revenue and profitability of the company is expected to be negatively impacted by Covid-19 in current financial year.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Strengths**

#### ***Experienced and resourceful promoter group***

PMPL derives strength from its strong promoter group belonging to Vishal Group wherein the individual shareholders belonging to the group hold majority stake in the company. The Group is one of the major business groups of Nepal involved in diversified business of trading, manufacturing, insurance and banking. Along with PMPL, the group has a presence in automobile industry as sole distributor/dealer of other automobile brands for more than 8 years. The company is managed under the overall guidance of Mr. Sirish Kumar Murarka, Chairman, who possesses wide experience in various industries.

#### ***Strong brand value of MG Motor and sole authorized distributorship in Nepal***

PMPL is presently, the sole authorized distributor in Nepal for MG Motor owned by the Shanghai-based Chinese state-owned automotive SAIC Motor Corporation Limited (SMCL). MG Motor is the largest importer of Chinese made cars into the United Kingdom and is also one of the fast growing automotive brand. Being sole authorized distributors of MG vehicles with established dealer network, PMPL has high client base and large demand catering opportunity.

#### ***Established dealer network***

PMPL started operations in August 2018 and within a short period have established a strong dealer network with total of four dealers currently in major cities of Nepal (i.e. Bharatpur, Pokhara, Birtamode and Butwal) along with service center in these locations. Currently, the company has one rented showroom in Naxal, Kathmandu, service center at Dhumbarahi, Katmandu and one godown in Birgunj. During FY20, 141 cars were sold through owned showrooms and 35 cars through dealers.

#### ***Financial risk profile marked by growth in revenue and profitability in FY20***

Financial risk profile of the company in FY20 is characterized by increasing scale of operations and profitability as it is the first full year of operation, however, impacted by lockdown imposed by the GoN due to Covid-19 pandemic. In FY20, PMPL achieved total income of Rs. 794 Mn with income from sale of vehicles contributing significantly ~99% to the total income. The total income of PMPL grew by ~189% during FY20 on account of increase in number of vehicles sold from 53 units in FY19 to 176 units in FY20. With increase in scale of operations and demand for the vehicles in the market, the company was able to achieve healthy PBILDT margin and PAT margins in FY20.

#### ***Moderate capital structure of the company at the end of FY20***

The company has not availed any term loan from Banks/Financial Institutions, to fund the operations of the company till FY20. The overall gearing ratio of the company has improved from 8.77x at the end of FY19 to 2.58x at the end of FY20 on account of infusion of equity share capital of Rs. 30 Mn during the year coupled with significant increase in profitability leading to growth in net-worth in FY20. This was however, partially set off by increase in working capital loan in FY20 to fund the increased operations of

the company. PMPL's Total Debt to Gross Cash Accruals (GCA) improved from 31.74x during FY19 to 3.80x in FY20 on account of growth in GCA of the company during FY20. Further, the interest coverage ratio of the company improved to 5.98x during FY20 from 1.29x in FY19.

### **Key Rating Weaknesses**

#### ***Short track record of operations***

PMPL started its commercial operation as an authorized distributor in Nepal for MG vehicles from August 2018 and therefore has a short operational track record of ~ 2 years. FY20 was the first full year of operation for the company and operational track record and brand acceptance of MG brand in the Nepali market is yet to be established. However, the promoter group has over 8 years of experience in auto dealership business with other group companies.

#### ***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 certain 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 manufacturers/suppliers deliver vehicle only against the letter of credit. Thus, the business depends heavily on working capital borrowings and inventory funding channels. During FY20, the company had operating cycle of 120 days mainly on account of high inventory holding period and debtor collection period. The average utilization of working capital limit was on the moderate side at ~65% during the last 10 months ended on mid-August 2020.

#### ***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 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 other brand electric vehicles in the market. 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.

#### ***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

#### ***Exposure to regulatory risk related to automobile industry***

As per circular dated on November 6, 2018, the Central bank 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.

Also in the budget announced for FY21, the GoN had revoked the concessions and subsidies along with revising the customs duty and value added tax (VAT) on imported electric vehicles. However, in a recent cabinet meeting held on October 08, 2020, the GoN has provided rebate on the excise duty of electric vehicles in the range of 25% to 80% depending on the capacity of the vehicles, although the VAT and customs have been retained. This increase in taxes as compared to concessional rates levied earlier is expected to impact the demand for electric vehicles in Nepal.

### About the Company

PMPL was incorporated on April 28, 2016 to deal in automobiles as well as spare parts. The company started its operations from August 2018 as an authorized distributor for MG Vehicles in Nepal. Also, the company has entered into dealership agreement with Mazda Motor Corporation, Japan in March 2020 as authorized distributor of Mazda vehicle in Nepal. PMPL is yet to commence procurement of Mazda Vehicles and its sale in Nepal.

### Brief Financial Performance during last 2 years:

(Rs. In Million)

For the year ended Mid July,	FY19 (Audited)	FY20 (Provisional)
Income from Operations	275	793
PBILDIT	25	146
PAT	3	89
Overall Gearing (times)	8.77	2.58
Interest coverage (times)	1.29	5.98

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### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities (Proposed)	Term Loan	30.00	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loans	210.00	CARE-NP A3
Short Term Bank Facilities (Proposed)	Working Capital Loan	390.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit	390.00	CARE-NP A3
<b>Total</b>		<b>1,020.00</b>	