

Kesharichand Bhanwarlall

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	32.05	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	645.95	CARE-NP A4 [A Four]	Assigned
Total Facilities	678.00 (Six Hundred and Seventy Eight Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Kesharichand Bhanwarlall (KBW).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KBW are constrained by its weak financial risk profile marked by fluctuating operating income with minimal net profitability over FY20-FY22 (Audited; FY refers to the twelve-month period ending mid-July) coupled with highly leveraged capital structure with limited gearing headroom and modest debt service coverage indicators. The ratings also factor in KBW's proprietorship nature of constitution, working capital intensive nature of operations and exposure to volatile interest rate. The ratings, however, derive strength from KBW's established track record of operations along with experienced promoter and management team in the related field and diversified distribution network with established brands.

Going forward, the ability of the firm to profitably scale up its operations on a sustained basis and effective management of working capital leading to improved solvency and coverage indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak financial risk profile marked by fluctuating operating income with minimal net profitability amid increasing finance cost

KBW derives its income from import and distribution of products from various reputed brands related to Heavy Construction Equipment, Automobile, Power Backup Solutions, and Industrial Compressors and Lubricants. KBW's total operating income (TOI) has been fluctuating over FY20-FY22. TOI declined by ~28% year-on-year (y-o-y) to Rs. 844 Mn in FY22 after growing 69% y-o-y in FY21. The sales over the last three years have been majorly impacted by the covid19 pandemic. More recently in FY22, sales had been adversely impacted by the slowdown in government spending coupled with tight liquidity in the banking system leading to sluggish demand for construction equipments and other related products. Furthermore, KBW has been operating with a low net profitability margin, which, although is common for dealers. Although PBILDT margin in FY22 improved to 8.58% (FY21: 5.61%) aided by lower cost of sales, the firm's PAT margin remained below 1% amid increasing finance cost owing to increasing interest rates coupled with higher utilization of working capital facilities. KBW reported modest gross cash accruals (GCA) of Rs. 10 Mn during FY22. The firm's ability to achieve sustained growth in operations with a stable margin profile will remain critical from credit perspective.

Highly leveraged capital structure with modest debt service coverage indicators

KBW's capital structure is leveraged, marked by an overall gearing of 4.20x at the end of FY22 compared to 5.19x at the end of FY21. Furthermore, debt service coverage indicators of KBW were modest with interest coverage ratio of 1.20x and Total debt/

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

gross cash accruals (GCA) of 71.61x for FY22 on account of low profitability margin coupled with high interest outgo. Majority of the finance cost of the firm is attributable working capital borrowings, which remains on the higher side owing to elongated net operating cycle. Similarly, the firm's total outside liabilities/tangible net worth stood at 4.77 at the end of FY22. Rationalization of debt levels is critical for the firm's financial flexibility as the current gearing headroom remains minimal.

Working capital intensive nature of operation

KBW's operations are working capital intensive in nature. It has to maintain certain level of inventory to avoid stock out problem as the supply is totally dependent upon imports. KBW imports its product from foreign countries and stocks them in its warehouse and then sells them through its seven branches. KBW's average inventory holding period increased to 159 days in FY22 from 112 days in FY21. Furthermore, average collection period increased sharply to 213 days in FY22 compared to 131 days in FY21 impacted by the ongoing liquidity crisis resulting in some delays in debtor realization. Consequently, total operating cycle of KBW increased to 310 days in FY22 from 188 days in FY21. As per the banker, the average working capital utilization of the firm against the drawing power was high at around 95% during the last 12 months ended mid-January 2023. An elongated working capital cycle puts added financial burden on the firm, which remains a challenge given the limited gearing headroom.

Proprietorship nature of constitution

KBW, being a sole proprietorship firm, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the proprietor which may affect financial flexibility and sustainability of the firm. Moreover, sole proprietorship firm business has restricted avenues to raise capital which could prove a hindrance to its growth.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. Any further significant rate hikes could put increased interest burden on the firm, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the firm from BFIs is subject to volatile interest rate.

Key Rating Strengths

Established track record of operations along with experienced promoter and management team in the related field

KBW was established in 2003 and is operated as a family owned business. Currently, KBW is owned by Ms. Rajkumari Tater and operated under the overall guidance of Mr. Prashant Tater (son of Ms. Rajkumari Tater). Mr. Tater has around two decades of experience in the field of Construction, Automobile, Industrial Products and Solar Projects. He is also the director of Kushal Projects Nepal Pvt. Ltd., Parshwanath Developers Pvt. Ltd., Kiran Traders and is the managing director of Kesharichand Bhanwarlall & Co. Pvt. Ltd. Mr. Tater is supported by team of qualified and experienced professionals to run the day-to-day operations of KBW.

Diversified distribution network with established brands

KBW operates its business via seven locations within the territory of Nepal, which includes corporate office at Biratnagar and six offices at Kathmandu, Birtamode, Itahari, Dhalkebar, Rajbiraj and Birgunj. KBW's godown located nearby Indian Border provides locational benefit to the firm for the import of trading items. KBW is involved in trading more than 15 varieties of products. For most of the products, the firm is authorized distributor in Nepal. Isuzu, Datsun, Kia, Nissan, Bajaj three wheeler, Kobelco Excavator,

Indopower Crane, etc. are the major brands that KBW is involved in import and trading, which have strong brand recognition over different countries.

About the firm

Kesharichand Bhanwarlall (KBW), incorporated as a sole proprietorship business in July 23, 2003, is an authorized dealer of various reputed brands related to Heavy Construction Equipment, Automobile, Power Backup Solutions, and Industrial Compressors and Lubricants. The firm has its corporate office in Biratnagar and is operating via other six branches located in Kathmandu, Birtamode, Itahari, Dhalkebar, Rajbiraj and Birgunj.

Brief financial performance of KBW during last 3 years is given below:

(Rs. in Million)			
Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	695	1,173	844
PBILDT Margin (%)	8.13	5.61	8.58
Overall Gearing (times)	8.39	5.19	4.20
Interest coverage (times)	1.18	1.39	1.20
Current Ratio (times)	1.04	1.11	1.06
Total Debt to Gross Cash Accruals (times)	81.54	49.33	71.61

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	32.05	CARE-NP B+ [B Plus]
Short Term Bank Facilities	Fund Based Limit	175.95	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	470.00	CARE-NP A4 [A Four]
Total Facilities		678.00	

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About CARE Ratings Nepal Limited:

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