

## Shasheela Motors Private Limited

### Rating

| Facility/Instrument        | Amount<br>(Rs. in Million) | Ratings <sup>1</sup>   | Rating Action |
|----------------------------|----------------------------|------------------------|---------------|
| Short Term Bank Facilities | 860.00                     | CARE-NP A4<br>[A Four] | Assigned      |
| <b>Total Facilities</b>    | <b>860.00</b>              |                        |               |

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP A4' to the short term bank facilities of Shasheela Motors Private Limited (SMPL).

### Detailed Rationale & Key Rating Drivers

*The rating assigned to the bank facilities of SMPL is constrained by below average financial risk profile marked by fluctuating scale of operations and low profitability, working capital intensive nature of operation marked by high LC backed creditors leading to highly leveraged capital structure, stagnant net worth owing to consistent dividend outgo. The rating also factors the cyclical nature of auto industry, high competition from other automobile players and exposure to regulatory risk related to automobile industry, particularly the near-term impact of the import restriction for passenger vehicles announced by the Government of Nepal (GoN) till mid-July 2022.*

*The rating, however, derives strength from SMPL's moderate track record of operations and experienced promoters, and established brand of Tata Motors' Commercial Vehicles (CV) in Nepal with significant market share.*

*Going forward, the ability of the company to profitably scale up the operations and effective management of working capital, with improvement in liquidity position of the company will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Financial risk profile marked by fluctuating scale of operations and diversification coupled with low profitability

The revenue of SMPL is derived solely from the sale of commercial vehicles of Tata motors, which leads to limited revenue diversification. Furthermore, its sales are concentrated majorly in two districts of Nepal (Kathmandu and Bhaktapur) which limits its scope of revenue growth to these districts. The scale of operations of the company has been fluctuating over the past three fiscal years with the company reporting total operating income of Rs. 1,299 Mn, 898 Mn and Rs. 1,326 Mn respectively during FY19, FY20 and FY21 respectively. During H1FY22 (Unaudited, refers to the six month period ended mid-January, 2022), the company sold 442 vehicles and reported a total revenue of Rs. 785.57 Mn.

In addition, the company has also been operating with a low profitability margin, with the PBILDT margin of 3.26% in FY21 (Audited, refers to 12 months period ended mid-July 2021). Limited scope of growth in scale generally associated with a regional dealership business constrains the company's prospects of margin expansion, particularly in a competitive industry dynamic.

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

**Working capital intensive nature of operation marked by high LC backed creditors leading to highly leveraged capital structure**

Automobile dealership business in Nepal has inherent high working capital intensity due to high inventory holding requirements. The company needs to maintain a certain level of inventory for display and high level of inventory to guard against supply shortages as the supply is totally dependent upon imports. Furthermore, all procurements from the distributor are backed by domestic letter of credit. Thus, the business depends heavily on utilization of bank facilities, majorly the non-fund based. Although net operating cycle is usually low because of relatively higher creditor days, the company's reliance on using LC limits remains high as indicated by a high total outside liabilities to net worth ratio of 29.10 times at the end of FY21 with total creditors (LC backed) of Rs. 668 Mn, indicating high dependency on supplier terms.

**Stagnant net worth owing to consistent dividend outgo**

SMPL has been consistently paying out dividends which has led to stagnant net worth of the company. Despite the equity addition of Rs. 10 Mn in FY21, the tangible net worth of the company declined to Rs. 24.75 Mn in FY21 from Rs. 38.99 Mn in FY20 due to a significant dividend payment. The company paid Rs. 51.84 Mn dividend in FY21 which also included dividend of Rs. 25.52 Mn from profits of FY20. Company had paid dividend of Rs. 19 Million in FY19.

**Cyclical nature and high competition in the auto industry; fortunes linked to suppliers**

The demand for commercial vehicles is inherently vulnerable to the economic cycles and is highly sensitive to interest rates. Demand increases during period of high economic growth rate and low interest rate regime, and vice-versa. Furthermore, there is a stiff competition from other automobile dealerships in Nepal with a large number of players operating in market. Due to high competition, SMPL is forced to pass on discount and commission to agents to attract customer as it is a volume driven business. Furthermore, the fortunes of the company are also linked to its supplier, which exposes the company's revenue growth and profitability to its supplier's future growth prospects. Furthermore, any impact on the business and financial profile of the manufacturer will also impact the growth prospects of the company.

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

The demand in automobile sector is impacted by heavy import duty (which include custom duty, excise duty and value added tax) imposed on the import of automobiles, which are still considered as luxury items in Nepal. Amid a slew of restrictions to limit outflow of foreign reserve, the Government of Nepal (GoN) recently decided to ban import of several non-essential items, which included commercial vehicles, on April 26, 2022. Although the imposition is announced till mid-July 2022, continuation of the same for a longer period will have an adverse impact on the automobile trading industry. Dealership business of SMPL remains exposed to similar policies of the GoN/Central Bank. This will remain a key monitorable.

**Key Rating Strengths****Moderate track record of operations and experienced promoters**

SMPL, incorporated on October 31, 2014, has been a dealer of Tata commercial vehicles (light and medium CVs) in Kathmandu and Bhaktapur. Having a track record of more than seven years, SMPL also derives its strength from experienced promoter and management team with almost two decades of experience in the automobile sector in Nepal. SMPL is owned by Mr. Santosh Khatiwada, managing director, who is also the Executive Chairman in Punyata Trading Private Limited (dealership of Kia motors).

### Established brand of Tata motors commercial vehicles in Nepal with significant market share

Tata Motors Limited is a leading manufacturer of commercial vehicles (CVs) in India with a strong global network of 76 subsidiaries and associate companies. Tata Motors has a dominant presence in the Nepalese CV industry with over half the market share in the commercial vehicles segment. Being a dealer of Tata Motors, SMPL's performance is linked to the demand for Tata Motors CV in Nepal. The high market presence and brand recall of Tata Motors in the Nepalese CV segment bodes well for the business prospects of the country over the medium term.

### About the Company

Shasheela Motors Private Limited (SMPL) is an authorized regional dealer of Siprodi Trading Private Limited (sole distributor of Tata Motors Limited for Nepal) for Kathmandu and Bhaktapur district of Nepal. Registered in October 31, 2014, SMPL deals in Tata commercial vehicles with 4 segments: small CV cargo segment, pick-up segment, intermediate and light CV truck/tipper, and panel van. The Head Office of SMPL is located at Ravi Bhawan, Kathmandu from where all the major operations are executed. The company also has two branches: one in Balaju, Kathmandu and the other in Suryabinayak, Bhaktapur.

Brief financials of SMPL for the past three years are given below:

(Rs. Million)

| For the year ended Mid-July            | FY19 (Audited) | FY20 (Audited) | FY21 (Audited) |
|--|----------------|----------------|----------------|
| Income from Operations                 | 1,299          | 898            | 1,326          |
| PBILDT Margin (%)                      | 2.53           | 3.22           | 3.26           |
| Overall Gearing (times)                | 0.17           | 0.07           | 0.10           |
| Interest Coverage (times)              | 31.78          | 33.64          | 84.16          |
| Current Ratio (times)                  | 1.05           | 1.08           | 1.03           |
| Total Debt/Gross Cash Accruals (times) | 0.16           | 0.14           | 0.09           |

### Annexure 1: Details of the Facilities rated

| Nature of the Facility     | Type of the Facility | Amount (Rs. In Million) | Rating     |
|----------------------------|----------------------|-------------------------|------------|
| Short Term Bank Facilities | Fund Based Limit     | 60.00                   | CARE-NP A4 |
| Short Term Bank Facilities | Non-Fund Based Limit | 800.00                  | CARE-NP A4 |
| <b>Total</b>               |                      | <b>860.00</b>           |            |

### Contact us

#### Analyst

Mr. Prashiddha Sharma Gaire  
 Contact No.: +977 9802335865  
 Email: prashiddhas@careratingsnepal.com

#### Senior Analyst

Mr. Santosh Pudasaini  
 Contact No.: +977 9802312855  
 Email: pudasaini.santosh@careratingsnepal.com

#### Relationship Contact

Mr. Achin Nirwani  
 Contact No.: +977 9818832909  
 Email: achin.nirwani@careratingsnepal.com

**About CARE Ratings:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.