

BS Motors Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	610.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	610.00 (Six Hundred Ten Million Only)		

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of BSMPL are constrained by its short track record of operations, significantly elongated operating cycle leading to increased dependence on bank borrowings and leveraged capital structure leading to weak debt service coverage indicators. The rating also factors in cyclical nature of the construction equipment industry coupled with high competition from other players and exposure to volatile interest rates. The rating also takes cognizance of the muted demand outlook for construction equipment in the country over the near term amid lower than budgeted capital spending by the government coupled with lower credit appetite of Banks and Financial Institutions leading to funding challenges for customers. Furthermore, demand outlook could also remain impacted by elevated cost of ownership amid increasing interest rates.

The rating, however, derives strength from experienced and resourceful promoters, financial profile marked by growing scale of operations in FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022), increasing brand presence and exclusive dealership agreement of New Holland Construction Equipment.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Significantly elongated operating cycle leading to high dependence on external borrowings

Construction equipment dealership business is generally working capital intensive due to high inventory holding requirements. Furthermore, the company has to maintain fixed level of inventory to guard against supply shortages and meet out the immediate demand of customers as the supply is totally dependent upon imports. All the equipment dealt by the company is of high value which leads to high inventory built up. All procurement from the supplier is backed by letter of credit. Thus, the business depends heavily on utilization of bank facilities, majorly the non-fund based facilities.

During FY22, operating cycle of the company stood highly elongated at 259 days on account of high inventory holding period and average collection period of 113 days and 147 days respectively. Average collection period was substantially high on account of increased sales in the fourth quarter of FY22 coupled with easing of credit policy by the company to its dealers. The company's ability to realize debtors in a timely manner will be critical from credit perspective.

Leveraged capital structure marked by weak debt service coverage indicators

BSMPL's capital structure is leveraged, marked by an overall gearing of 2.59x at the end of FY22. Majority of the finance cost of the company is in the form of working capital borrowings. The company's debt service coverage indicators were modest with

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

interest coverage ratio of 1.48x and total debt/ gross cash accruals (GCA) high at above 30x for FY22 on account of low profitability margin coupled with high interest cost. Although BSMPL's capital structure and debt service coverage indicators showed sequential improvement on y-o-y basis over the past two financial years (FY21-FY22), the indicators still remained below average.

Limited track record of operations with modest scale of business

BSMPL was incorporated in July 27, 2016 and started operation as an authorized dealer for sales, service and spare parts of New Holland Construction brand construction equipment in Nepal. The company's scale of business has remained modest in the first five years of operations. Despite sales picking up in FY22, the company's operations are likely to remain modest over the near term given the current headwinds faced by the construction equipment industry. Demand outlook for construction equipment in the country over the near term is likely to be impacted by elevated cost of ownership amid increasing interest rates and slowdown in economic activities amid lower capital expenditure by the government. However, having promoters with over two decade of experience in auto dealership business along with other group companies bodes well for the business prospect of the company over the medium term.

Cyclical nature of the construction equipment industry and high competition from other players

The construction equipment industry is cyclical in nature and is dependent on factors like pace of construction activities in the country and government spending. With slowdown in government spending and construction activities the market for heavy equipment's will also shrink, exposing the business to vulnerability of seasonal demands. Furthermore, there is stiff competition from automobile dealerships in Nepal. There are large numbers of players operating in market. Due to high competition dealers are forced to pass on discount and exchange scheme to attract customer as this is volume driven business.

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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward, with some upward revision in rates already happening from mid-September 2022. Any further rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced and resourceful promoters

BSMPL derives strength from its strong promoters belonging to the Bhusal Group of Companies which is involved in diversified business of manufacturing and trading nature. The group is also involved in banking and financial sector. The promoters of company have an experience of over two decades in various industries. BSMPL is managed under the overall guidance of Mr. Balkrishna Bhusal, Chairman of BSMPL, who possess around three decades of experience in the related field. Mr. Bhusal is also the chairman of Bhusal Cable and Wires Industries Private Limited (CARE-NP BB-/ A4), which is the manufacturer of various cables by importing raw materials, and many other automobile trading businesses. Mr. Amrit Bhusal (son of Mr. Balkrishna Bhusal), Managing director in BSMPL, has around a decade long experience in various sectors. He also looks after the overall operation of the company. The promoters have also been infusing capital into the company to support growth. During July 2022, equity share capital of the company increased by Rs. 100 Mn to Rs. 150 Mn.

Increasing brand presence and exclusive dealer of New Holland Construction Equipment with established sales network

BSMPL has signed agreement with CNH Industrial (India) Private Limited for Sales, Service and Spare parts of New Holland Construction Equipment and spare parts in all districts of Nepal. New Holland Construction is an American manufacturer of construction machinery and was founded in 1895 in New Holland, Pennsylvania. As a sole authorized dealer of New Holland construction equipment for Nepal, BSMPL has an increasing demand catering opportunity in Nepal, which links the fortune of the company to the demand for New Holland Construction Equipment and its spare parts in the country.

BSMPL has an established dealer network across Nepal with total of 28 sub-dealers for New Holland Construction Equipment in FY22. Contract with dealer is on year to year basis and dealers are provided with dealer's price to sell the vehicle. All the sales of BSMPL are made through its dealers. With presence of established dealers' network, sales and other income are expected to rise in future.

Growing Scale of operations and improved profitability in FY22

During FY22, BSMPL's Total Operating Income increased to Rs. 632 Mn from Rs. 125 Mn in FY21 supported by increased sales of loaders. The company sold 103 units of New Holland Backhoes Loader in FY22 compared to 31 units in FY21. With the increase in sales, PBILDT of the company improved to Rs. 60 Mn in FY22 compared to 8 Mn in FY21 resulting in much improved PBILDT margin of 9.46% in FY22 compared to 6.38% in FY21. Consequently, the company booked net profit of Rs. 14 Mn in FY22 with PAT margin of 2.24% compared to PAT margin of 0.36% in FY21. The revenue of BSMPL is derived solely from the sale of construction equipment and spare parts of New Holland, which leads to limited revenue diversification. However, being an exclusive authorized dealer for Nepal, the business possesses scope of revenue growth throughout the country.

About the Company

BS Motors Private Limited (BSMPL), incorporated on July 27, 2016, is a sole authorized dealer of New Holland Construction equipment and spare parts for Nepal. The company focuses on the sales of varieties of construction equipment such as Backhoes loader, roller, excavator and spare parts of New Holland. BSMPL has appointed 28 sub-dealers across Nepal in FY22.

Financial Performance

Particulars	2019 (12m, A)	2020 (12m, A)	2021 (12m, A)	2022 (12m, UA)
Income from operations	552	178	125	632
PBILDT Margin (%)	3.73	7.15	6.38	9.46
Overall Gearing (times)	4.33	3.08	3.00	2.59
Interest coverage (times)	1.39	1.13	1.18	1.48
Current Ratio (times)	1.21	1.30	1.32	1.38
Total Debt to Gross Cash Accruals (times)	57.97	191.21	183.86	30.92

A: Audited; UA: Unaudited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	100.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	510.00	CARE-NP A4 [A Four]
Total Facilities		610.00	

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