PRESS RELEASE

BHUSAL BUSINESS HOUSE PRIVATE LIMITED
September 2022

Rating

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Short Term Bank Facilities	850.00	IRN A4	Assigned
Total	**850.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 850 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Bhusal Business House Private Limited (BBH) derive strength from its experienced promoter group supported by proficient management team. The rating also reflects the improved market position of BBH in the distribution and servicing of New Holland construction and agriculture equipment and their parts. The company also benefits from its principal's established product portfolio and global position in the construction and agriculture equipment industry. These strengths are partially offset by the limited track record of operation, large working capital requirement as reflected in the GCA of ~260 days in past two years ended mid-July 2022, exposure to intense competition and cyclicality inherent in CE[1] industry. Further the rating also takes a note on the dependency on a single principal resulting in high concentration in revenues. Going forward, the ability of the company to scale up its operation while improving its margins, gearing and coverage indicators will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced promoter group supported by proficient management team

BBH is a part of Bhusal Group and derive its strength from promoters having strong presence in Nepal through their group entities in trading, manufacturing, hospitality and other services. BBH is led by Mr. Balkrishna Bhusal, Chairman, having over three decades of experience in trade and industry and Mr. Amrit Bhusal, Managing Director, having around 8 years of experience in the industry. Further, the promoters are supported by a team of technically qualified and experienced professionals, leading to a better understanding of the market dynamics, enabling a sound relationship with the suppliers and customers.

Established brand recognition and improved market presence across the country

BBH has an established presence as authorized dealer for New Holland in construction and agriculture equipment all over Nepal. The company's well-established brand is further expected to support demand and aid on product differentiation amidst the competition and price volatility risk. Also, with the promoters' extensive experience in the related field for over a decade, is further expected to sustain with improved presence in the Nepalese market. Also with the pre-established common network channel among the group companies with the presence of two showrooms and more than 25 dealers across all over Nepal is again expected to boost the operational profile going forward.

Key Rating Weaknesses

[1] Construction equipment industry

Limited track record, however backed by established promoter group

BBH has an operational track record of less two years. This however is partially set off by experienced promoter group especially in trading and manufacturing industries. The group companies within Bhusal group are already an established company dealing with trading of heavy construction equipment (CEs) like excavators, backhoe loader, vibrator compactor and agriculture equipment like tractors along with their spare parts & accessories.

Large working capital requirement

Trading industries are characterised by a highly working capital-intensive industry, as most of the funds are blocked in the inventories and receivables. The intensive nature of working capital operations of BBH is reflected in gross current assets (GCAs) of ~260 days in past two years ended mid-July 2022, mainly driven by the competitive nature of industry necessitating sufficient credit days allowed to the dealers along with adequate stock backup for smooth business operation. Moderation in inventory levels resulting in improvement in working capital efficiency will remain key rating sensitivity factor.

Exposure to cyclicality inherent in CE industry and high competition from other players

The construction equipment industry remains inherently cyclical in nature with its revenue susceptible to change in economic activities, government budget and lending capacity of bank. The CE industry is highly sensitive to the interest rate and fuel prices. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Fuel prices have a direct impact on the running cost of the vehicle and any hike in the same would lead to reduced disposable income of the consumers, influencing the purchase decision. The company thus faces significant risks associated with the dynamics of the CE industry and remains vulnerable to economic downturn. Also, with the stiff competition among existing dealership in Nepal and increasing number of new players, the dealers like BBH are compelled to introduce new schemes and discount coupons in order to sustain in the market.

Linked to the fortunes of New Holland and inherent risk from external factors.

BBH being an authorized dealer of New Holland construction and agriculture equipment, is vulnerable to the risk of change in policy by the principal with regards to the dealership. Accordingly, the financial risk profile of the company has a high degree of correlation with the performance of New Holland's vehicles in the market and their ability to launch new products as per the market dynamics. Further, BBH, like other players in the automobile, remains exposed to economic vulnerability, regulatory and legal risks in developing markets such as evasion of tax rates, fluctuation in prices of fuel, shifting investment & interest to electric vehicles, change in customer demands etc.

Analytical Approach: Standalone

Applicable Criteria:

Corporate Credit Rating Methodology

About the Company:

Incorporated in August 2020, BBH is an authorized dealer of all Backhoe Loader of CNH[2] Industrial all over Nepal. The company is operated under the leadership of Mr. Balkrishna Bhusal, who is also the founder of Bhusal Group. The Group has exposure in all aspects of trading of agriculture machinery, construction and heavy equipment of New Holland through its sister concern. BBH is a family owned business promoted by Mr. Balkrishna Bhusal and Mr. Amrit Bhusal.

[2] Case New Holland

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22
	Audited	Provisional
Total Operating Income (in NPR Mn.)	189	622
EBITDA Margin (%)	4.16	5.79
Interest Coverage Ratio (x)	1.06	1.04
Current Ratio (x)	1.18	1.36
Overall Gearing Ratio (x)	5.40	2.74

** Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Overdraft/ Demand Loan	Short Term	150.00	IRN A4
Non Fund Based Bank Facilities- LC/BG	Short Term	700.00	IRN A4
Total Facilities		**850.00**	

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About Infomerics Credit Rating Nepal Limited:

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