

PRESS RELEASE

DUGAR BROTHERS & SONS PRIVATE LIMITED

September 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	712.00	IRN B+	Assigned
Short Term Bank Facilities	540.00	IRN A4	Assigned
TOTAL	1,252.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN B+ (Single B Plus) to the long term bank facilities of NPR 712.00 Mn and the rating of IRN A4 (A Four) to the short term bank facilities of NPR 540.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Dugar Brothers & Sons Private Limited (DBSPL) derive strength from its parentage of experienced promoter group supported by proficient management team and long track record of operations coupled with established relationships with principal suppliers.

These rating strengths, however, are constrained by DBSPL's deteriorated operational and financial profile and linkage to the fortunes of principal manufacturer and inherent risk from external factors. Furthermore, the ratings also note DBSPL's exposure to economic cyclicality, regulatory risk and intense competition among automobile players. Going forward, the ability of the company to scale up its operations and successfully tie up with the new vendors while managing revenue growth and maintaining profitability margins will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced promoter group supported by proficient management team

DBSPL is a part of M.V Dugar Group and derive its strength from promoters having strong presence in Nepal through their group entities in trading, construction, financial services, insurance industries etc. DBSPL is managed by Mr. Motilal Dugar, having over five decades of experience in trade and 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.

Long track record of operation with established relationships with principal suppliers

DBSPL boasts an operational track record spanning nearly a decade in the trading business of automobiles and their spare parts, services & accessories. Furthermore, the company deals in Mahindra Earth Master & accessories, Mahindra & Mahindra (M&M) heavy vehicles as well as commercial vehicles and construction equipment's, HAMM compactor & accessories. The M.V Dugar Group, is an established player in the industry with a history spanning over five decades having presence in vast range of automobile companies in various segments including two-wheeler vehicles, commercial vehicles, agri solution and construction equipment. Their extensive experience and established presence are expected to bolster the operational profile going forward.

Key Rating Weaknesses

Deteriorated operational and financial profile

The operational and financial profile of DBSPL has experienced a significant decline in FY23 and FY24. The overall sales volume has plummeted due to the termination of authorised distributorship agreement with major brands in the 2-wheeler segment namely “Aprilia” and “Vespa”. Additionally, the decline in the sales of the Mahindra Commercial vehicle segment has further deteriorated the operational profile. This withdrawal from reputable brands, coupled with the sluggish economy and liquidity pressure, has had a profound impact on both the operational and financial aspects. This is evident in the total operating income (TOI), which decreased by ~58%, falling from NPR 3,967 Mn in FY22 to NPR 1,650 Mn in FY23 and further declined to NPR 1,129 Mn in FY24, consequently impacting all the capital and coverage indicators.

The overall gearing ratio deteriorated to 2.32x at the end of FY23 from 1.70x at the end of FY22. Similarly, the total debt to EBITDA deteriorated to 8.60x in FY23 from 3.42x in FY22. The interest coverage deteriorated to 1.28x in FY23, down from 3.47x in FY22. Furthermore, the dividend pay-out ratio also remains high, accentuating these concern.

Linked to the fortunes of principal manufacturer and inherent risk from external factors.

DBSPL being an authorized dealer of Mahindra & Mahindra (M&M) construction equipment’s and commercial vehicles, 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 associated manufacturer and their ability to launch new products as per the market dynamics. Further, DBSPL, 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.

Exposure to economic cyclical, regulatory risk and intense competition among automobile players

The automobile industry is highly price sensitive; any changes in price or increase in fuel costs will have a direct impact on demand, thereby affecting the sales volume. Furthermore, the industry is exposed to regulatory risk that directly affect revenues and margins, making it susceptible to changes in the regulatory landscape. Additionally, with a large number of players operating in the market and an increasing number of new entrants, companies like DBSPL face competition, constraining operating margins and limiting bargaining power against vehicle manufacturers. The business risk profile also remains vulnerable to economic cyclical.

Elongated operating cycle

The operations of the automobile industry are working capital intensive in nature, primarily due to the high inventory holding period coupled with the extended credit provided to dealers/customers. DBSPL’s operation also exhibit a working capital intensive nature, given the distributorship model of its business. The company maintains sufficient inventory to ensure smooth operations, especially since its product supply relies entirely on imports. Additionally, DBSPL offers a substantial credit period to its customers, which has been increasing over the past few years. As a result, the company’s operating cycle deteriorated to 674 days in FY23 and 281 days in FY22 from 272 days in FY21, leading to an increased reliance on external financing.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated on July 08, 2015, Dugar Brothers & Sons Private Limited (DBSPL) is an authorized dealer for the sales, service & spare parts of the Mahindra Earth Master & accessories, Mahindra & Mahindra (M&M) heavy vehicles as well as commercial vehicles and construction equipment's, HAMM compactor & accessories. DBSPL is a part of M.V Dugar Group, with Mr. Motilal Dugar serving as the chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23
	Audited	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	3,002	4,715	3,967	1,650
EBITDA Margin (%)	11.13	11.13	8.89	9.21
Interest Coverage Ratio (x)	1.35	3.64	3.47	1.28
Current Ratio (x)	1.13	1.21	1.25	1.40
Total Debt/GCA (years)	35.13	5.26	6.54	40.32
DSCR (x)	1.28	3.01	2.81	1.27
Overall Gearing Ratio (x)	6.12	2.31	1.70	2.32

Earnings before Interest Tax Depreciation Amortization (EBITDA)

Debt Service Coverage Ratio (DSCR)

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Long Term Bank Facilities- Fund Based Loans (Permanent Working Capital)	Long Term	712.00	IRN B+
Short Term Bank Facilities- Fund Based Loans	Short Term	430.00	IRN A4
Short Term Bank Facilities- Non Fund Based Loans	Short Term	110.00	IRN A4
Total Facilities		1,252.00	

Analyst Contacts

Mr. Saphal Maharjan

Tel No. +977-1-4583304/4585906

saphal.maharjan@infomericsnepal.com

Ms. Ramita Tulsibakhyo

Tel No. +977-1-4583304/4585906

ramita.tulsibakhyo@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No. +977-1-4483304/4485906

rabin.pudasaini@infomericsnepal.com



Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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