

PRESS RELEASE

DUGAR EARTHMOVERS PRIVATE LIMITED

September 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	548.26	IRN B	Assigned
Short Term Bank Facilities	307.50	IRN A4	Assigned
TOTAL	855.76		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN B (Single B) to the long term bank facilities of NPR 548.26 Mn and the rating of IRN A4 (A Four) to the short term bank facilities of NPR 307.50 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Dugar Earthmovers Private Limited (DEPL) derive strength from its parentage of experienced promoter group supported by proficient management team. The rating strength, however, is constrained by DEPL's modest financial risk profile marked by leveraged capital structure and debt coverage indicators, concentrated product profile, linkage to the fortunes of principal manufacturer and inherent risk from external factors. Furthermore, the ratings also note DEPL's exposure to economic cyclicalities, regulatory risk, intense competition among automobile players and elongated operating cycle. 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

DEPL 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. DEPL is managed by Mr. Vivek Dugar having over three 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.

Key Rating Weaknesses

Modest financial risk profile

DEPL's total operating income decreased to NPR 379 Mn in FY24 from NPR 779 Mn in FY23 representing decrement by ~51%, mainly attributable to slow economic growth and limited brand concentration. The company's capital structure stood leveraged with overall gearing ratio of 5.92x at the end of FY23 vis-à-vis 5.82x at the end of FY22. Also, the interest coverage ratio stood modest at 1.09x in FY23, 0.85x in FY22. The Total debt to EBITDA stood high at 8.37x in FY23, albeit improved from 17.51x in FY22, primarily due to the increase in EBITDA. Despite this, the TOL/TNW ratio remained relatively steady at around 6.92x in FY23, showing a marginal decrease from 7.68x in FY22.

Concentrated Product Profile

DEPL's business model heavily relies on the Tata Hitachi brand for its revenue generation. While Tata Hitachi is a well-established and reputable brand in the construction equipment industry, any adverse developments related to Tata Hitachi, such as changes in market demand, product recalls, or reputational issues, could significantly impact DEPL's business operations and financial performance. As DEPL exclusively trades in Tata Hitachi equipment, it is heavily reliant on Tata Hitachi as its primary supplier. Any disruptions in the supply chain, such as delays in product deliveries, changes in pricing or terms, or conflicts between DEPL and Tata Hitachi, could have significant repercussions on DEPL's ability to meet customer demand and fulfill contractual obligations.

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

DEPL being an authorized dealer of Tata Hitachi Construction Machinery India Ltd, 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, DEPL, 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.

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. DEPL'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, DEPL 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 587 days in FY23 and 562 days in FY22 from 512 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 August 05, 2020, Dugar Earthmovers Private Limited (DEPL) is an authorized dealer for TATA Hitachi Construction Machinery Co. Pvt. Ltd. dealing in sales, service & spare parts for the TATA Hitachi Range of Excavators, Backhoe Loaders & Wheel Loaders. DEPL is a part of M.V Dugar Group, with Mr. Vivek Dugar serving as the chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	298	675	779
EBITDA Margin (%)	3.88	6.89	13.07
Interest Coverage Ratio (x)	1.31	0.85	1.09
Current Ratio (x)	1.08	1.28	5.58
Total Debt/GCA (years)	170.64	Negative	103.91
DSCR (x)	1.28	0.85	1.09
Overall Gearing Ratio (x)	8.26	5.82	5.92

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	548.26	IRN B
Short Term Bank Facilities- Fund Based Loans	Short Term	95.00	IRN A4
Short Term Bank Facilities- Non Fund Based Loans	Short Term	212.50	IRN A4
Total Facilities		855.76	

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About Infomerics Credit Rating Nepal Limited:

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