

## PRESS RELEASE

### **N.E.V. NEPAL PRIVATE LIMITED**

September 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities	405.96	IRN BB-	Assigned
Short Term Bank Facilities	524.04	IRN A4	Assigned
<b>Total</b>	<b>930.00</b>		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 405.96 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 524.04 Mn.

#### Detailed Rationale

The ratings assigned to bank facilities of N.E.V. Nepal Private Limited (NEV) derive strength from its experienced promoters, improving financial performance of the company marked by improvement in Total Operating Income (TOI) and profitability margins. TOI of NEV recorded a significant uptick at a CAGR of ~91% during last 4 FYs (FY21-FY24). The ratings also factor in regulatory support from Government of Nepal for electric vehicles (EV) ecosystem.

However, the ratings are mainly constrained by the company's limited track record of operations with highly concentrated product portfolio. Leveraged capital structure and working capital intensive nature of business operations also remains a concern. The ratings also take note of cyclical and competitive nature of the industry and the company's exposure to regulatory changes. Any unfavorable changes in regulatory/ tax regime on import of electric vehicles may have a bearing on incremental revenue and profitability of the company. Going forward, the ability of the company to increase its scale of operations while maintain profitability margins , improving its capital structure through its efficient working capital management will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### Experienced promoters

NEV is managed under the overall guidance of its two-member Board of Directors chaired by Mr. Rajan Rayamajhi. Mr. Rayamajhi is the Founder/Executive Chairman of five companies under 'thee Go Group of Companies' dedicated to provide Nepal with eco-friendly mobility solutions through #MissionZeroEmission. thee Go group has been partnering with Nepal Electricity Authority (NEA) and USAID to develop the charging stations and infrastructures across the country. Ms. Bhawana Thapa, Director, has been involved in overseeing the business verticals of thee-go group for over a decade. The Board of Directors is adequately supported by the experienced management team across different functions.

##### Improving financial performance marked by improvement in TOI and profitability

The company's TOI increased at the compounded annual growth rate of ~91% during last 4 FYs (FY21-FY24). NEV reported TOI of NPR 896 Mn in FY24, a year-on-year increase of ~78%, mainly due to increased sales of its vehicle model 'DFSK Danfe'. The company's EBITDA margin have been on improving trend, gradually improving to ~17% in FY24 (FY22: 10.25%, FY23: 13.54%) which was negative in FY21. Consequently, the PAT margin stood at 7.69% in FY24. Gross Cash Accruals (GCA) improved to more than NPR 70 Mn in FY23 and FY24 which was negative in FY22.

## Key Rating Weaknesses

### Limited track of operation

NEV has relatively short operational track record of around four years in trading of vehicles and its spare parts, service and accessories. The company is working to establish its market position to expand the customer and supplier relationships to enhance its business profile. Currently, NEV serves as the authorized dealer for sales, service, and spare parts for the Chongqing Sokon Motor (Group) Imp. & Exp. Co. Ltd. for sales under the brand name 'DFSK'.

### Concentrated product portfolio amid intense competition

The company's product portfolio has been heavily concentrated on 'DFSK Danfe', which accounted for ~97% of its total sales revenue in FY24, a notable increase from ~84% in FY23 and ~73% in FY22, thereby raising concern regarding product concentration risks. The automotive sector is significantly influenced by economic growth, credit conditions, and consumer confidence, and is inherently vulnerable to economic cycles and sensitive to interest rates, which may impact sales volumes. Nevertheless, Government of Nepal's supportive regulatory environment for electric vehicle ecosystem remains a positive. Furthermore, given the structural shift in customer preferences towards EVs over the medium to long term, competitive intensity in this segment is expected to increase, as evidenced by the recent influx of multiple brands into the Nepalese market.

### Leveraged capital structure

The capital structure of the company stood leveraged with overall gearing ratio of 3.66x as on mid-July 2024, albeit improved from 12.88x as on mid-July 2023. The improvement is primarily due to of increase in company's tangible net worth, attributable to advance equity infusion from the promoters and the accumulation of profits in the company's reserves. The interest coverage ratio improved to 2.22x in FY24, up from 0.93x in FY23. Total Debt to GCA ratio of the company stood high at 8.88x during FY24 and 8.12x during FY23. Total Outside Liabilities to Tangible Net Worth ratio stood high at 9.01x as on mid-July 2024, albeit improved from 14.37x as on mid-July 2023.

### Working capital intensive nature of business

The operations of the company are highly working capital intensive in nature due to significant inventory holding requirements and provision of adequate credit to the customers. The company has to maintain adequate level of inventory to mitigate any supply shortages, which are entirely reliant on imports. Additionally, imports from the manufacturers are primarily secured through letters of credit, resulting in heavy reliance on working capital borrowings. As a result, NEV's operating cycle remains elongated at 127 days in FY24, largely due to high level of debtors and inventory at the end of FY24.

**Analytical Approach:** Standalone

### Applicable Criteria:

[Corporate credit rating methodology](#)

### About the Company:

N.E.V. Nepal Private Limited (NEV), incorporated on August 02, 2019, is the sales agent, authorized agent of spare parts as well as after-sales service provider of Chongqing Sokon Motor (Group) Imp. & Exp. Co. Ltd. for sales under brand name 'DFSK'. NEV's registered office is located at Naxal, Kathmandu, Nepal. The major shareholder of the company is Mr. Rajan Rayamajhi, holding ~59% of shareholding of company as of mid-July 2024.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	129	325	480	896
EBITDA Margin (%)	Negative	10.25	13.54	16.74
Interest Coverage Ratio (x)	Negative	0.82	0.93	2.22
Current Ratio (x)	1.26	0.83	0.98	1.41
Overall Gearing Ratio (x)	Negative	Negative	12.88	3.66

\*Classification as per Infomerics Nepal standards

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)

## Ratings

Name of Instruments/Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	206.96	IRN BB-
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	199.00	IRN BB-
Short Term Bank Facilities- Working Capital Loan	Short Term	91.75	IRN A4
Short Term Bank Facilities- LC/ BG*	Short Term	406.80	IRN A4
Short Term Bank Facilities- LC/ BG* (Proposed)	Short Term	25.49	IRN A4
<b>Total</b>		<b>930.00</b>	

\*LC: Letter of Credit; BG: Bank Guarantee

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## About Infomerics Credit Rating Nepal Limited:

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