PRESS RELEASE

JAGDAMBA MOTORS PRIVATE LIMITED

February 2025

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,481.80 (enhanced from 1,185.46)	IRN BBB+	Reaffirmed
Short Term Bank Facilities	4,485.60 (enhanced from 4,202.64)	IRN A2	Reaffirmed
Total	**5,967.40**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN BBB+ (Triple B Plus) assigned to the long-term bank facilities of NPR 1,481.80 Mn and IRN A2 (A Two) to the short-term bank facilities of NPR 4,485.60 Mn.

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Jagdamba Motors Private Limited (JMPL) reflects its strong parentage under the Shanker Group, a prominent conglomerate in Nepal with diversified interests in steel, cement, polymers, trading, hospitality, and insurance led by Mr. Shahil Agrawal, who brings over 22 years of industry experience, JMPL benefits from a seasoned management team overseeing its operations. In FY24, JMPL reported a total operating income (TOI) of NPR 8,822 Mn, up from NPR 7,846 Mn in FY23, indicating robust sales performance. The EBITDA margin remained stable at 10.53%, while the PAT margin improved to 6.46% in FY24 from 4.79%, primarily due to reduced interest expenses following a decline in total debt. Gross Cash Accruals (GCA) also increased to NPR 617 Mn, enhancing the company's financial stability. The company's capital structure strengthened, with total debt decreasing to NPR 2,794 Mn and tangible net worth rising to NPR 2,163 Mn, resulting in an improved gearing ratio of 1.29x as of mid-July 2024. Interest coverage ratio enhanced to 3.26x in FY24, reflecting better debt servicing capability.

However, JMPL operates in a cyclical and highly competitive automobile industry, facing challenges from established players like Honda, Bajaj, Hero, and Yamaha. The business is inherently working capital-intensive, necessitating significant inventory levels and credit provisions to dealers, which could impact liquidity. Additionally, exposure to regulatory risks, such as changes in import tariffs and policies, may affect operations and profitability. JMPL's ability to navigate industry cyclicality, manage competition, maintain operational efficiency, and adapt to regulatory changes will be crucial for its sustained financial health and growth.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced Shanker Group with experienced promoter and experienced management team

JMPL is a part of Shanker Group and derives its strength from promoters having strong presence in Nepal through their group entities in manufacturing of steel, cement, polymers, trading, hospitality, insurance etc. JMPL is managed by Mr. Shahil Agrawal (single promoter) and has 22 years of experience in trade and industry. Further, the promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of the company.

Moderate financial profile characterized by improvement in sales and profitability during FY24

In FY24, JMPL experienced financial growth and operational resilience, driven by increased market demand and higher sales volumes. The company's Total Operating Income (TOI) rose to NPR 8,822 Mn, up from NPR 7,846 Mn in FY23, primarily due to heightened demand leading to increased sales quantities. The EBITDA margin remained stable at 10.53% in FY24, comparable to 10.62% in FY23. The PAT margin improved to 6.46% in FY24 from 4.79%, largely attributed to a reduction in total debt, which significantly decreased interest expenses from NPR 486 Mn in FY23 to NPR 285 Mn in FY24. This reduction in financial burden enhanced the company's net profitability, despite stable operating margins. Additionally, Gross Cash Accruals (GCA) increased to NPR 617 Mn in FY24, up from NPR 425 Mn in FY23, reinforcing improved cash generation and financial stability. Overall, JMPL's ability to grow revenue, maintain stable operating margins, and enhance profitability through debt reduction and lower interest expenses underscores its strong financial management and resilience. The improved liquidity and sustainable earnings in FY24 position the company well for future growth and strengthen its credit profile.

Moderate capital structure and debt coverage indicators

In FY24, total debt declined to NPR 2,794 Mn vis-à-vis NPR 3,025 Mn in FY23, while Tangible Net Worth (TNW) increased to NPR 2,163 Mn vis-à-vis NPR 1,828 Mn, leading to an improved overall gearing ratio of 1.29x vis-à-vis 1.65x. This indicates lower financial leverage and enhanced solvency. Debt coverage metrics have also improved, with interest coverage rising to 3.26x vis-à-vis 1.71x, primarily due to reduced interest expenses, while Total Debt/EBITDA improved to 3.01x vis-à-vis 3.63x and Total Debt/GCA strengthened to 4.53x vis-à-vis 7.13x, reflecting better earnings and cash flow generation. Additionally, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.62x vis-à-vis 2.03x, reinforcing a stronger balance sheet. While FY22 was an abnormal year with exceptionally high earnings, FY24's performance highlights a sustainable and improving capital structure, enhanced debt servicing capacity, and reduced financial risk, supporting the company's credit strength.

Moderate Working Capital Cycle

Dealership business has inherent high working capital intensity due to high inventory holding requirements and credit to the dealers. The company has to maintain fixed level of inventory for display and high level of inventory to guard against supply shortages as the supply is totally dependent upon imports (CKD from its vendor-TVSM). Further, the manufacturers/ suppliers demand the payment in advance and deliver vehicles only after receipt of full payment or against the letter of credit from banks. Thus, the business depends heavily on working capital borrowings and inventory funding channels. At the end of FY24, JMPL has inventory holding period of 37 days (vis-à-vis 80 days at the end of FY23) and operating cycle of 101 days (vis-à-vis 166 days at the end of FY23). In absolute terms, inventories decreased to NPR 693 Mn in FY24 from NPR 820 Mn in FY23 mainly due to increase in demand. Debtors days stands at 82 in FY24 which all are backed by bank guarantee and consists of receivable from its dealers. The company's working capital intensity remains moderate at ~27% in FY24, which improved from ~34% in FY23.

Key Rating Weaknesses

Cyclical nature of the industry and high competition from other automobile players

Demand for vehicles increases during period of high economy growth rate period and low interest rate regime and vice-versa. Since the segment is highly price sensitive, any change in the prices of two-wheelers or increase in the petrol cost may have a bearing on the sales volumes. There are large number of players operating in market like Honda, Bajaj, Hero, Yamaha as well as increasing number of newer entrants. Due to high competition, dealers are forced to pass on discounts and exchange schemes to attract customer since it is a volume driven business.

Exposure to regulatory risk

JMPL's business remains exposed to regulatory risk arising from various regulations, such as changes in tariffs, related to import of automobiles. Furthermore, frequent policy adjustments, like restrictions on certain motorcycles import and the requirement of 50% cash margin for importing two wheelers, as observed in the past, could directly impact company's revenue and margins. The ability of the company to effectively manage the impact of regulatory changes by the GoN would also remain a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

Past Rating Rationale
Jagdamba Motors Private Limited: Bank Loan Rating Reaffirmed

About the Company:
Incorporated in December 27, 2010 as S.G Global Private Limited (SGP), which was later converted to Jagdamba Motors Private Limited (JMPL) on June 28, 2015. JMPL is the sole authorized distributor of TVS Motor Company Limited (TVSM) in Nepal from September 2015 and sole authorized distributor of PROTON Cars in Nepal from FY20. JMPL is a part of Shanker Group, managed by Mr. Shahil Agrawal.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	13,618	7,846	8,822
EBITDA Margin (%)	14.93	10.62	10.53
Interest Coverage Ratio (x)	5.60	1.71	3.26
Total Debt/ EBITDA (x)	1.89	3.63	3.01
Current Ratio (x)	1.16	1.12	1.24
Overall Gearing Ratio (x)	1.72	1.65	1.29

Earning before Interest Tax Depreciation Amortization
**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	1,481.80	IRN BBB+
Fund Based Bank Facilities- Working Capital Loan	Short Term	1,914.20	IRN A2
Non-Fund Based Bank Facilities	Short Term	2,571.40	IRN A2
Total Facilities		**5,967.40**	

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About Infomerics Credit Rating Nepal Limited:
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