Batas Tractors Private Limited: Ratings downgraded to [ICRANP] LB-/A4

December 28, 2023

Summary of rating action

Instrument* (Amounts in NPR million)	Last rated amount	Current rated amount	Rating action
Long-term loan limits	8.53	751.00	**[ICRANP] LB-;** downgraded from [ICRANP] LB+
Short-term loan limits	1,151.64	403.00	**[ICRANP] A4;** reaffirmed
Total	**1,160.17**	**1,154.00**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has downgraded the long-term loan rating of Batas Tractors Private Limited (BTPL or the company) to **[ICRANP] LB-** (pronounced ICRA NP L B minus) from [ICRANP] LB+ (pronounced ICRA NP L B plus), while reaffirming its short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The rating action mainly factors in the company's weak liquidity and operational profile as evident from the sharp spike in working capital intensity during FY2023 (net working capital to operating income ratio - NWC/OI of ~400%), amid the major revenue drop (~66%). BTPL also reported negative operating profit margins (OPM) during FY2023 which has resulted in weak coverage indicators, while the capitalisation profile continues to remain weak. Since the company's revenue and margins remain exposed to economic cyclicity, near term improvements are less likely amid the ongoing economic slowdown. Hence, its ability to recover its sizeable debtors would remain crucial for improvement in its liquidity profile. Given the high reliance on debt and high interest rate outlook, the company's debt service indicators are likely to remain under pressure over the near to medium term. The ratings are also impacted by the stiff competition from dealers of other established construction equipment (CE) brands.

Nonetheless, the rating factors in the company's association with the Batas Organization, which has an established presence in the Nepalese automobile sector (since 1997), among others. Going forward, the company's revenue/margins trajectory, along with improvements in its capital structure/coverage indicators and working capital cycle would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Part of Batas Organization with long track record – Operating since 2016, BTPL is a unit under the Batas Organization, which has long track record (over 20 years) in the Nepalese automobile and associated industries. BTPL's group entities are involved in national dealership for Volvo Eicher commercial vehicles and regional dealership of TVS two wheelers, Maruti Suzuki and Mahindra brand passenger/commercial vehicles. The group also has a non-banking financial intermediary unit, which had been aiding the financing of vehicles being sold by these group entities.

Credit challenges

Major revenue degrowth in FY2023 owing to economic cyclicality – The CE industry is inherently cyclical in nature, and its growth prospects are linked with the pace of economy/construction activities. In line with the economic slowdown, the company witnessed a major revenue degrowth of ~66% in FY2023, which resulted in negative OPM. The company's ability to generate adequate revenue and margins will remain crucial for improvement in its financial profile.

Weak financial profile – BTPL continues to have a leveraged financial profile (gearing of 3.7 times as of mid-July 2023), which along with negative OPM during FY2023 has led to weak coverage indicators. While the interest coverage ratio for FY2023 was muted at -0.1 times, debt service coverage ratio (DSCR) stood at 0.6 times, aided by the non-operating income (mainly the interest charged on debtor balances, being booked on cash basis). Given the expected continuation of these weak metrics over the near to medium term owing to the ongoing economic/demand slowdown, the company's ability to improve its financial profile will remain a key monitorable.

Stretched liquidity profile – In the past, BTPL used to offer elongated credit period to its major customer segment i.e., the contractors, who usually prefer flexible credit period rather than competitive pricing, given their uneven cash flows. However, this segment is among the major impacted sectors by the ongoing economic slowdown leading to weak debtor recoveries for BTPL, resulting in spiked debtor days of 1,519 in FY2023 as against 559 days in FY2022. The company's debtor balances declined by 8% during FY2023, despite ~66% drop in revenues. Accordingly, the working capital intensity stretched to ~400% for FY2023. BTPL's reliance on bank's debt to fund working capital requirements continues to remain high with limited cushion in drawing power without considering the impact of aged debtors (highly overutilized drawing power in case aged debtors are excluded). Hence, the company's ability to improve its working capital cycle would remain crucial for its liquidity profile.

Intense competition – BTPL faces stiff competition with the presence of multiple established players and brands such as JCB, Hyundai, and Tata in the CE sector. The revenues still remain concentrated on the CAT-branded excavators, which contributed to ~58% of FY2023 revenues (~36% of the overall revenues from a single excavator model) as against ~81% of FY2022 revenues. The dependency on a few models is expected to remain high in the medium term, however, is likely to report slight moderations amid the presence of multiple brands in BTPL's portfolio (including the recent addition of Bajaj Indef brand in FY2023).

Link to the previous rating rationale:
[Rationale Batas-Tractors Fresh BLR June 2022]

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Link to the applicable criteria:
[Corporate Credit Rating Methodology]

About the company

Batas Tractors Private Limited (BTPL), established in 2016, is the authorised dealer of Caterpillar construction equipment, Godrej equipment and Propel-branded products for Nepal. BTPL started its business with dealership of CAT products in June 2017, and thereafter added dealership of Godrej equipment in January 2018 and distributorship of Propel products in June 2020. The company is promoted by five individuals with a majority stake (~61%) from the Batas family through Mr. Ananda Raj Batas and Mr. Shanta Raj Batas. BTPL is a part of the Batas Organization, which has a track record of more than 20 years in the Nepalese automotive and allied sectors.

Key financial indicators

	Audited				Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023
Operating income (OI; Revenues in NPR million)	1,006	463	750	762	258
OPBDITA/OI (%)	2.6%	-0.2%	5.2%	6.7%	-5.9%
Total debt/Tangible net worth (TNW) (times)	7.4	4.9	3.7	4.0	3.7
Total outside liabilities/TNW (times)	9.0	5.9	4.5	4.5	4.1
Total debt/OPBDITA (times)	24.8	-732.9	21.7	19.3	-55.4
Interest coverage (times)	0.4	0.0	0.6	0.5	-0.1
DSCR (times)	1.9	0.6	1.0	1.0	0.6*

	Audited				Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023
Net working capital/OI (%)	70%	143%	141%	158%	400%

Source: Company data

** Higher than interest coverage ratio, aided by non-operating income (interest income charged on debtors, being booked on cash basis).*

Annexure-1: Instrument details

Instrument (Amounts in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits (A)	**8.53**	**751.00**	[ICRANP] LB-; downgraded from [ICRANP] LB+
Fund-based Limits; Term Loan	8.53	-	
Fund-based Limits; Permanent working capital loan	-	751.00	
Short-term loan limits (B)	**1,151.64**	**403.00**	[ICRANP] A4; reaffirmed
Fund-based; Working Capital (Overdraft/Demand Loan)	550.00	153.00	
Non-fund based; Letter of credit (LC)	475.00	250.00	
Non-fund based; Bank Guarantees (within LC)	100.00	(50.00)	
Unallocated; Short term limits	26.64	-	
Total	**1,160.17**	**1,154.00**	

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