

Rating Rationale
Bhusal Cable & Wire Industries Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	93.33	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	620.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	713.33		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Bhusal Cable & Wire Industries Private Limited (BWPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BWPL are constrained by impact of COVID-19 on the business of the company, limited track record of operations, highly leveraged capital structure and moderate debt service coverage indicators of the company. The ratings also factor in raw material price volatility risk and foreign exchange fluctuation risk associated with company business, high working capital cycle due to high collection period, presence in highly fragmented & competitive nature of cable industry and exposure to volatile interest rates. The ratings however, derives strength from experienced management team, moderate financial profile characterized by growth in sales and profitability during FY20 (unaudited, refers to 12 months period ended mid-July, 2020). The ratings also factor in diverse product range catering to wide spectrum of industries and established marketing setup, demand of cables & wires in the country and locational advantage for import. Ability of BWPL to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management would be key rating sensitivities.

Impact of COVID-19 on the business of the company

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. However, with GoN given some relaxation to manufacturing industries at an early stage to commence production with safety arrangements, the company had come into partial operation. Due to the lockdown, manufacturing activities of BWPL was disturbed for certain period which directly impacted the revenue of the company.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly leveraged capital structure and moderate debt service coverage indicators of the company

The financial risk profile of the company was below average marked by eroded Networth in the books of the company upto the end of FY19 (audited, refers to 12 months period ended mid-July, 2019) due to losses suffered by the company before taken over by the current management. However, with company earning net profit in FY20 followed by infusion of additional capital, the networth of the company improved at the end of FY20. Overall gearing ratio was very high at 10.43x at the end of FY20 on account of increase in working capital loans of the company and low networth. The interest coverage ratio of the company was moderate at 2.85x in FY20. Total debt/Gross Cash Accruals (GCA) improved marginally to 9.19x during FY20 from 9.21x in FY19, although remained high.

Raw material price volatility risk and foreign exchange fluctuation risk

Aluminum rod, copper rod, steel wire, PVC and XLPE compounds are the major raw materials for BWPL. The prices of the BWPL's raw materials are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. The raw material cost was around 71% of the total operating income, thus, any volatility in prices of the same impacts the profitability of the company. Further, majority of raw material requirement is met through imports and the prices of the same are linked to USD, for which company has no practice of hedging resulting exposure to foreign exchange fluctuation risk. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

High Working capital cycle due to high collection period

The operations of the company are working capital intensive in nature as the operations are dependent upon the imported raw materials. Also, the company has to keep the inventory and extend credit to the customers which lead to high reliance on working capital requirements. BWPL generally allows 3-4 months credit period to its customers. Due to the impact of lockdown imposed by GoN, sales were high during last month of FY20 resulting higher debtor days at year end which lead to high working capital cycle of 241 days. This has led to high reliance on the bank finance reflected by high average fund-based working capital limit utilisation at 95.32% during last 8 months period ended mid-July, 2020.

Presence in highly fragmented and competitive nature of cable & wires industry

The cable & wire industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry are exposed to competition-induced pressures on profitability. The demand of cables and wires is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. In order to push sales to sustain the

competition, credit sales in the market has substantially increased leading to increased debtor days and high working capital requirement for companies.

Exposure to volatile interest rates

Nepalese banking sector fixes lending interest rate based on quarterly base rate and interest rate can be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from banks and financial institutions is subject to volatile interest rate.

Key Rating Strengths

Limited track record of operations, however with experienced management team

BWPL derives strength from its strong promoters belonging to the Bhusal family which is involved in diversified business of manufacturing and trading nature. The promoters of company have an experience of over two decades in various industries. BWPL is managed under the overall guidance of its four-member Board of Directors (BoD) having wide experience in the manufacturing sector. Mr. Balkrishna Bhusal, Chairman of BWPL, has more than 20 years of experience and is also chairman in other group companies. Mr. Amrit Bhusal, executive director in BWPL, has an overall 10 years of experience in family business. He also looks after the overall operation of the company. The promoters have also been infusing funds into the company in the form of equity to fund the operational needs of the company. During FY20, promoters infused equity of Rs. 16 Mn and Rs. 60 Mn as share application money.

Moderate financial profile characterized by growth in sales and profitability during FY20

BWPL's total revenue increased by ~620% in FY19 over FY18 being the first full year operation. Total revenue of the company further increased by ~117% in FY20 majorly on account of increase in total quantity sold of cables & wires with increasing customer base followed by improvement in average price realization. PBILDT of the company increased by ~131% to Rs. 100 Mn in FY20 with PBILDT margin of 17.05% due to substantial increase in total revenue, improvement in the price realisation with better coverage of the fixed costs. BWPL booked net profit of Rs. 40 Mn in FY20 with PAT margin of 6.87%.

Diverse product range catering to wide spectrum of industries and established marketing setup

BWPL has been manufacturing wires and cables products of wide range with varied usages. The company is into manufacturing of ACSR conductors and ABC cables which are used in overhead distribution and high voltage power transmission. House wiring cables, power cables have various applications in the household and commercial buildings. Communication cables for indoor and outdoor telephone and internet services. All these cables and wires are sold in the domestic market under the brand name of "Buddha Cables". BWPL sells its products all over Nepal and the sales are made to both wholesale as well as retail customers.

Demand of cables and wires in the country

Nepalese economy is developing and growing, and is in the phase of investment in infrastructure sectors, power sector and tourism sector. In the recent budget presented by finance minister of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction and Rs. 36 Bn for construction of various transmission line and substations. Further, in the monetary policy for FY20/21, the central bank has made provision for commercial banks to invest at least 10% of their total credit investment in the energy sector by Mid July 2024. Government’s high emphasis on construction, infrastructure development and estimated GDP growth of 7.00% for FY20-21 is likely to benefit the cable manufacturers like BWPL.

Locational advantage for import

The plant site is located in Butwal Industrial Estate, around 5 Kms from Indo-Nepal borders in Sunauli dry-port. Since majority of raw materials used by BWPL are imported through India, the factory’s proximity to the border remains a positive point.

About the Company

Bhusal Cable & Wire Industries Private Limited (BWPL) is a private limited company which was initially incorporated under the name of Patwa Cable Industries Private Limited on December 26, 2005. Later, during September 2017, the company was taken over by the present management and the name of the company was changed to Bhusal Cable & Wire Industries Private Limited. The company is involved in manufacturing of various wires and cables with plant located in Amasatiya, Rupandehi, Nepal.

Brief financial performance of BWPL during last 3 years is given below:

Particulars	FY18	FY19	FY20
	(Audited)		(Provisional)
Income from Operations	38	271	587
PBILDIT	0.07	43	100
PAT	(11)	12	40
Overall Gearing (times)	(1.70)	(2.98)	10.43
Interest coverage (times)	0.02	2.15	2.85

(Rs. Million)

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs.)	Rating
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		In Million)	
Long Term Bank Facilities	Term Loan	93.33	CARE-NP BB
Short Term Bank Facilities	Working Capital Limit	100.00	CARE-NP A4
Short Term Bank Facilities	Non-Funded Limit	520.00	CARE-NP A4
Total		713.33	