

Pioneer Wires Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities-Term Loan	49.72	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities-Working Capital Loan	20.00	CARE-NP A4 [A Four]	Assigned
Short Term Bank Facilities –Non Fund Based Limits	1,440.00	CARE-NP A4 [A Four]	Assigned
Total facilities	1,509.72		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Ltd. (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 Pioneer Wires Private Limited (PWPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PWPL are constrained by fluctuating scale of operations and leveraged capital structure with working capital intensive nature of operations. The ratings also factor in PWPL's, raw material price volatility and foreign exchange fluctuation risk, exposure to volatile interest rates coupled with its presence in highly competitive nature of industry.

The ratings however, derive strength from experienced promoters with established track record of operations, locational advantage of manufacturing facilities, improving operating margins and moderate debt service coverage indicators.

Going forward, the ability of the company to manage growth in operations while improving its profitability margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Fluctuating revenue profile and leveraged capital structure

Company's total operating income has been fluctuating over the past three years (FY19-FY21; FY refer to 12 months' period ended mid-July 2021). TOI has registered a decline on y-o-y basis in FY20 and growth in FY21. The significant decline in revenue during FY20 was mainly attributed to decline in operations on account of Covid-19 induced lockdown. Due to increase in sales from GI wire and Torkari, the company reported growth of ~120 % in total operating income over previous year. The company achieved total operating income of Rs. 1,436 Mn in FY21 as compared to Rs.650 Mn in FY20.

As on mid July 2021, total debt of the company comprises of long-term borrowings of Rs. 59 Mn, unsecured loan of 78 Mn and working capital loans of Rs. 500 Mn. The capital structure of the company stood leveraged on account of high dependence on external borrowing to meet its working capital requirements. The overall gearing stood leveraged at 4.75x as on the said balance sheet date. Though the gearing ratio has improved from 5.44x over previous balance sheet, the same continued to remain high.

Working capital intensive nature of business

The operations of the company are highly working capital intensive owing to large product portfolio (different shapes and sizes) which requires the company to stock up the requisite inventory. Furthermore, payable period extended by its vendors

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

are also low which also keeps the working capital utilization relatively higher. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. The company keeps an inventory of around 3 months on account of high lead time for import of raw materials from India. PWPL markets its product domestically and the average collection period during FY21 was 42 days; combining all entails to working capital intensive nature of business. The company had high average working capital loan utilization of around 77% for last 12 months ended mid-January, 2022.

Raw material price volatility risk and foreign exchange fluctuation risk

The raw materials for PWPL are majorly imported from India, the prices of which 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 contributed ~90% of the operating income of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. Furthermore, the prices of the imported raw materials are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be crucial for company's profitability.

Presence in highly competitive nature of industry

The wire industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. The demand of wire products is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, the value addition in the wires and related products is low, resulting into low product differentiation in the market. Also, with increase in the capacities of the existing plants and new capacities coming into operation competition has intensified which has resulted into substantial decline in profitability margins of the industry players in FY21.

Key Rating Strengths

Experienced promoters and established track record of operations

PWPL has an operational track record of more than three decades in manufacturing wires. PWPL derives strength from its promoters being a part of the Sarda Group, having diversified business presence in iron & steel, infrastructure, FMCG, agro based industry and trading etc. The company is currently managed by Mr. Anil Sarda, Managing Director of the company, having an experience of more than 20 years though his association with various manufacturing companies.

The manufacturing facilities is located in Biratnagar, around 17 Kms from Customs main office of Jogbani, Indian border. Since majority of raw materials used by PWPL are imported through India, the factory's proximity to the border remains added advantage in terms of lower freight cost and less lead time.

PWPL has been manufacturing various types of wires such as GI wires, PC wires, and other allied products which have diversified applications. The company sells its products under the brand name of "Pioneer Wires" which is an established brand in the Nepal market on account of its long-standing presence. This provides leverage to the company in front of new players entering the industry. PWPL has been selling its product throughout the country.

Improving profitability margins and moderate debt service coverage indicators

Despite having fluctuating total operating income, Profitability margins has been improving on y-o-y basis in the last 3 financial years (FY19 - FY21). PBILD margin improved from 2.72% in FY19 to 7.04% in FY21. Change in product mix of the company with management focus more on premium products having higher margins coupled with measures on cost reduction led to improvement in PBILD margin. PAT has also shown improvement during the said period in line with PBILD margin.

For FY21, the company has moderate debt service coverage indicators attributed to improvement in profitability. Interest coverage ratio stood satisfactory at 4.75x in FY21. Furthermore, total debt/ GCA also remained moderate at 8.39x in FY21 which improved from 60.31x in FY20 due to decrease in long term debt and increase in PAT.

About the Company

Pioneer Wires Private Limited (PWPL) is a private limited company incorporated on June 16, 1986 for manufacturing of wires, nails and other allied steel products. The company has its manufacturing facilities located in Biratnagar, Nepal and as on mid-January 2022, total installed capacity of 40,000 Metric Tons Per Annum(MTPA). PWPL is part of the Sarda group of companies of Nepal and all the shares of the company are held by individual promoter from Sarda group.

Brief Financial Performance during the last 3 years is as follows:

(Rs. Million)

For the Period Ended / as at Mid-July,	FY19	FY20	FY21
	(A)	(A)	(A)
Income from Operations	1,357	654	1,439
PBILDT Margin (%)	2.72	5.23	7.04
Overall Gearing (times)	7.07	5.44	4.75
Interest Coverage (times)	0.66	1.61	4.75
Current Ratio (times)	1.09	1.08	1.04
Total Debt/ Gross Cash Accruals (times)	-ve	60.31	8.39

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	49.72	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	20.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	1,440.00	CARE-NP A4
Total		1,509.72	

Contact Us

Deputy Manager

Mr. Santosh Pudasaini

+977-01-4012629

santosh.pudasaini@careratingsnepal.com

Senior Manager

Ms. Shalini Sanghai

+977-01-4012629

shalini.sanghai@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.