

## Annapurna Cables Industries Private Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	458.75	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	2,101.25	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>2,560.00</b> <b>(Two Thousand Five Hundred and Sixty Million Only)</b>		

\* 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 Annapurna Cables Industries Private Limited (ACIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ACIPL are constrained by its highly leveraged capital structure leading to limited gearing headroom amid working capital intensive nature of business resulting in increased reliance on bank borrowings to meet working capital requirements. The ratings also take cognizance of the ongoing, partly debt funded, capital expenditure of the company, which could lead to sustained high gearing levels of the company over the near term. The ratings further factor in raw material price volatility risk, foreign exchange fluctuation risk, presence in highly competitive nature of cables industry and exposure to volatile interest rates.

The ratings, however, derive strength from long track record of operations along with experienced promoters in related business, improving trend in financial profile characterized by growth in sales and internal accruals during FY22 (Unaudited; refers to the twelve-months period ended mid-July 2022). The ratings also factor in diversified product range catering to wide spectrum of industries and favourable demand outlook of the industry over the medium term.

*Going forward, the ability of the company to profitably scale up its operations along with rationalization of its working capital requirements leading to improvement in solvency parameters and overall capital structure would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

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

The capital structure of ACIPL stood leveraged marked by overall gearing ratio of 3.43x as on mid-July 2022, albeit improving from 3.79x as on mid-July 2021 (Audited; refers to the twelve-month period ended mid-July 2021) on account of increased net worth base supported by accrual of profits coupled with loan repayment. The increasing trend in net worth, however, is likely to remain offset by increasing debt requirement of the company going forward to cater the ongoing capex as well as to support the growing scale of the company, which could lead to increased utilizations of the working capital facilities. This is likely to result in a sustained high gearing level of the company over the near-term with limited gearing headroom. However, debt coverage indicators stood adequate with interest coverage ratio of 4.90x in FY22 supported by increased PBILD generation amid growing sales. Total Debt/Gross Cash Accruals remains high at 8.78x during FY22 although improved from 9.11x during FY21 on account of improved cash accruals.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

**Working capital intensive nature of operations with high operating cycle**

The operations of the company are working capital intensive in nature marked by high inventory holding and elongated collection period. ACIPL is required to keep adequate inventory for smooth operations and extend reasonable credit to their customers, leading to high reliance on bank borrowings to meet working capital requirements. Being a highly competitive business, the average collection period remained high at around 97 days in FY22. Further, ACIPL is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply of raw material for uninterrupted manufacturing operations, which led to average inventory holding of around 58 days during FY22. As the company imports its raw material from various countries through Letter of Credit, the business normally has high non-fund based exposures. The overall high working capital requirements are met largely through bank borrowings which normally results in average utilization of over 90% of its sanctioned working capital limits. The ability of ACIPL to efficiently manage working capital requirements leading to lesser dependence on borrowings would be critical from credit perspective.

**Raw material price volatility risk and foreign exchange fluctuation risk**

ACIPL's major raw materials include aluminium rod, copper rod, steel wire, PVC and XLPE compounds which are imported from India and Middle-East countries. Raw material constituted more than 85% of the total cost of production for the last two years (FY21 and FY22). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of Copper and Aluminium which fluctuates widely with global demand and supply scenario. Therefore, the company's profitability margins are exposed to volatility in raw material prices. Furthermore, majority of raw material requirement is met through imports and the prices of the same are linked to USD, thereby exposing the company 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 crucial from its profitability perspective.

**Presence in highly competitive nature of cables industry**

The cable industry is intensely competitive 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 do not have pricing power and 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 rate**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

## **Key Rating Strengths**

### **Established track record of operations along with experienced promoters**

ACIPL derives strength from its strong promoters belonging to the Rathi Group of Companies which is involved in related business of manufacturing and trading having experience of more than two decades. ACIPL is managed under the overall guidance of its two-members Board of Directors (BoD) having wide experience in the manufacturing sector. Mr. Shyam Rathi, Chairman of BWPL, has more than 25 years of experience in wires manufacturing business and is also chairman of Radha Krishna Polymer. Mr. Jitendra Kumar Rathi, director, has more than 40 years of experience and is also director in Jaya Ganga Tour & Travel Pvt. Ltd. The BOD is further supported by other experienced management team members.

### **Improving business profile leading to growing sales and improving cash accruals**

ACIPL is involved in sales of various types of wires and cables namely house wiring cables, power cables, ABC/ACSR cables and concentric cables. The company's Total Operating Income (TOI) has been growing on y-o-y basis with CAGR (compounded annual growth rate) of 26% over the last 5 years (FY18-FY22). During FY22, ACIPL achieved TOI of Rs. 2,549 Mn, which increased from Rs. 1,925 Mn in FY21, on account of increased sales quantity majorly contributed by ASCR and PVC Cables supported by increasing customer base as well as improvement in average price realization.

PBILD margin of the company stood at 7.24% in FY22 (PY:7.22%) despite increase in raw material price. PBILD in absolute term increased by 32% to Rs. 184 Mn in FY22 from Rs. 139 Mn in FY21 owing to growth in sales. Consequently, PAT increased to Rs.102 Mn in FY22 from Rs.61 Mn in FY21. Furthermore, Gross Cash Accrual of the company improved to Rs. 121 Mn in FY22 from Rs. 87 Mn in FY21.

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

ACIPL produces wires and cables in various variants as per the demand in the market. ACSR conductors and ABC cables are used in overhead distribution and high voltage power transmission. House wiring cables, power cables have various applications in the household, commercial buildings, hospitals and all types of industries. The wide application not only diffuses the risk of dependency on a single industry and also allows the company to cater to a larger market with a broad customer base. ACIPL sells its product all over Nepal through distribution network of 201 distributors established by the company. Most of the sales revenue comes through sales through these dealers followed by tender based sales to NEA and project sales to various hydropower projects.

### **Stable demand outlook of cables industry over medium term**

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of cables and wires in developing various housing infrastructures and power facilities for development of overall economy. In the recent budget, government has allocated funds for industrial infrastructure, railway constructions and other civil structures as well as development of energy sector. Government commitment towards infrastructure and energy sector has increased demand of various cables in Nepal. The government's high emphasis on construction, infrastructure development, namely development of hydropower projects, airports and other infrastructures and estimated GDP growth of 5.80% as included in the budget for FY23 is likely to benefit the cable manufacturers like ACIPL.

### About the Company

ACIPL is a private limited company incorporated on July 25, 2021 which was initially incorporated as sole proprietorship under the name Annapurna Cable. The company is involved in manufacturing of various wires and cables with plant located in Biratnagar, Morang, Nepal. ACIPL sells the products in the domestic market under two brand names "Rathi" and "Annapurna".

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from Operations	1,265	1,925	2,549
PBILDT Margin (%)	9.28	7.22	7.24
Overall Gearing (times)	3.76	3.79	3.43
Interest coverage (times)	2.49	4.48	4.90
Current Ratio (times)	1.28	1.43	1.30
Total Debt/Gross Cash Accruals (times)	11.64	9.11	8.78

A: Audited, UA: Unaudited

### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	458.75	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based/Non-Fund Based	2,101.25	CARE-NP A4+ [A Four Plus]
<b>Total</b>		<b>2,560.00</b>	

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