

Godawari Iron Stores Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	170.17	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	540.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	710.17 (Seven hundred ten million and one hundred seventy thousand only)		

Details of Facilities in Annexure 1

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of Godawari Iron Stores Private Limited (GISPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GISPL are constrained by its highly leveraged capital structure with weak debt service coverage indicators, working capital intensive nature of business leading to high reliance on bank borrowings, exposure to volatile interest rates, and GISPL's presence in a competitive and fragmented industry. The ratings, however, derive strength from experienced promoter with the company being part of an established business group having long track record and presence in diversified sectors, locational advantage and government's priority towards infrastructure sector.

Going forward, the ability of the company to improve its profitability indicators while increasing the scale of operations and to efficiently manage working capital requirements leading to improved solvency indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak financial risk profile

The financial risk profile of GISPL is marked by a highly leveraged capital structure at the end of FY22 (Unaudited, FY refers to the twelve-month period ending mid-July) with an overall gearing of 4.00x, which however improved from 7.58x at the end of FY21 (Audited) aided by addition of Rs. 70 Mn in equity share capital. Although GISPL's total operating income is in an increasing trend for the past four years (FY18-FY22) growing at a CAGR of 39.86% leading to a total income of Rs. 899 Mn in FY22, the company's profitability indicators stood modest with PBILDT margin and PAT margin at 5.76% and 0.28% respectively in FY22. The company's profitability margins have been historically on the lower side owing to the trading nature of the business and intense market competition given the highly fragmented nature of the industry. Consequently, interest coverage ratio of the company stood stressed at 1.00x during FY22 with total debt/ GCA very high above 190x on account of a low net profitability which led to low GCA levels. Amid subdued profit generation coupled with elevating interest outgo, the company has depended on financial support from promoters in the form of equity injection to meet any shortfall in meeting its obligations, which is expected to continue going forward as well if needed. However, the ability of the company to continue to rationalize its debt levels by effectively managing its working capital requirements leading to improved coverage indicators will be critical from credit perspective.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. As GISPL is involved in trading of construction materials, the products sold are purchased from local manufacturers as well as through imports via letters of credit. The

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

company also needs to advance credit to its customers, generally for upto three months, considering its presence in a highly competitive industry. With average collection period of 78 days, average inventory period of 52 days and average creditor period of 10 days, net operating cycle stood high at 120 days in FY22. This led to high reliance of the company on the bank finance for meeting working capital needs. Consequently, the company had almost fully utilized its fund-based working capital limits during the twelve-month period ended mid-October 2022.

Exposure to volatile interest rates

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.

Presence in competitive and fragmented nature of industry and trading business

The company is exposed to the risks associated with the trading nature of business like inherently low profitability margins, availability of the traded commodity in desired quantity and quality etc. Though the company has an established business relationship with its customers and suppliers, the company does not have any long-term sourcing and supply contracts with its suppliers and customers, respectively. The construction materials 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 do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of construction materials is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, 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 the companies. The traders of construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the prices of the products offered.

Key Rating Strengths

Experienced promoter

GISPL is promoted by Mr. Sushil Prasad Senuriya Baniya, who is associated with Godawari Business Organization (GBO) as the Managing Director. GBO, established in 1950, is an ancestral business of Mr. Baniya and family. Mr. Baniya is a younger brother of Mr. Munna Prasad Senuriya Baniya, Chairman of GBO. The group has been involved in manufacturing of TMT bars, HDPE pipes, garden pipes & water tanks, trading and supply of construction materials, repairing of transformers and fabrication, trading of hardware in drinking water projects. Since the group is operating in the similar line of business in the Nepalese market for decades, it gives them an advantage of existing distribution channel for marketing of trading goods from GISPL.

Locational advantage

The company's storage facility is situated at Hetauda, Makawanpur. Hetauda, the capital city of Bagmati Province, is one of the fastest growing cities of Nepal. The company imports its trading goods from India via Birgunj Custom Port, the largest custom port of Nepal, which is around 55 km from the storage facility. Birgunj is well connected to India via Raxaul-Birgunj

freight railway as well as by road transportation. Furthermore, the facility is located at the central region of Nepal, which provides the company an advantage in terms of countrywide market accessibility.

Government's priority towards infrastructure sector

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. In the budget presented by Finance Minister of Nepal for FY23, Government of Nepal has allocated Rs. 161.56 Bn towards infrastructure development, with major focus towards development of health sectors, tourism sectors and other public infrastructure development. Government's high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures with an estimated GDP growth of 8.00% as included in the budget for FY23 is likely to benefit the construction material traders like GISPL.

About the Company

Godawari Iron Stores Private Limited (GISPL), incorporated on July 22, 2015, is engaged in trading and supply of construction materials such as steel, cement and hardware materials used in construction, based on the market demand. The company purchases the products from various suppliers and manufacturers (including companies under Godawari Business Organization) and sells them to the retail market via its distribution channel. The company also has its own storage facility on its fully owned land in Hetauda, Makawanpur District.

Financial Performance

For the period ended	FY20 (Audited)	FY21 (Audited)	FY22 (Unaudited)
Income from operations	300	669	899
PBILDT Margin (%)	4.66	4.65	5.76
Overall Gearing (times)	9.59	7.58	4.00
Interest Coverage (times)	0.95	0.97	1.00
Current Ratio (times)	1.08	1.22	1.25
Total Debt/ Gross Cash Accruals	126.40	230.08	190.12

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	170.17	CARE-NP B+
Short Term Bank Facilities	Fund Based	310.00	CARE-NP A4
Short Term Bank Facilities	Non Fund Based Limits	230.00	
Total		710.17	

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