

Bishesh & Company Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	63.85	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	596.15	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	660.00 (Six Hundred Sixty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long term bank facilities and 'CARE-NP A4+' to the short term bank facilities of Bishesh & Company Private Limited (BCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BCPL are constrained by its low profitability margin business profile owing to trading nature of business in the highly competitive and fragmented construction material supply industry. Amid low profitability with limited scope for margin expansion, the business is dependent on being able to achieve high volume sales, which is challenging to maintain on a sustained basis given the volatility in demand from the construction sector, which in turn is dependent on the government's infrastructure spending and the growth trend of the country's overall economy. This leads to a somewhat volatile revenue profile of construction material suppliers like BCPL, which coupled with the inherent nature of low margin trading business leads to a below average business profile with limited scope for significant improvement. The ratings also factor BCPL's exposure to volatile price of construction materials and exposure to volatile interest rate.

The ratings, however, derive strength from BCPL's moderate track record of operations with experienced promoters in the related field, moderate operating cycle marked by low collection period and inventory period at the end of FY22 (Audited, FY refers to the twelve-month period ending mid-July) leading to an adequate liquidity position of the company, presence in diversified sectors and government's priority towards infrastructure sector leading to stable demand outlook over the medium term despite muted near-term demand amid lesser government spending.

Going forward, the ability of the company to sustain growth in its scale of operations while improving its net profitability margin and maintaining its debt levels through efficient management of working capital will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average business profile with thin profitability owing to trading nature of business

Although BCPL's scale of operations have grown at a CAGR of 163.65% over past three financial years (FY20-FY21) aided by consolidation of businesses of various group associates, the company's profitability profile has remained low with PBILDT margin of less than 2% over the same period. 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. A relatively low profit margins limits cushion to absorb sudden spikes in input prices or any contingency expenses. The company's ability to improve cash flow from operations will depend on its ability to continually grow its scale of operations as scope for margin accretion remain low. However, challenging industry headwinds in the construction sector currently is likely to result in lower income and consequently lower cash accruals for the company in FY23.

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

Presence in competitive and fragmented nature of industry

Though the company has an established business relationship with its customers and suppliers, it 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. Furthermore, the demand of construction materials is considered cyclical as it depends upon the capital expenditure plans of the government and some major players in the end-user industry. Furthermore, in order to push sales to sustain the competition, credit sales in the market have substantially increased leading to increased debtor days and higher working capital requirements. The traders of construction materials like BCPL are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the prices of the products offered.

Inherent risk associated with the 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 been getting regular orders and also has an established business relationship with its customers, the company does not have any long-term sourcing and supply contracts with its suppliers and clients, respectively. The company is also exposed to the competition in construction materials trading business due to low entry barriers.

Exposure to volatile interest rate

BCPL had Rs. 24 Mn as finance cost in FY22, which increased from Rs. 12 Mn in FY21, thus squeezing its net profitability. BCPL's interest expenses are based on 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. Thus, funding taken by the company is exposed to volatile interest rate.

Key Rating Strengths**Experienced promoters in the related field**

BCPL was established in 2018 and has limited track record of operations. However, Mrs. Pratigya Regmi, Managing Director, has experience of more than a decade in the construction material supply business. She is also proprietor of Bishesh Enterprises since 2008. The business is managed with the support of Mr. Utsav Shrestha (family member), is having experience of more than a decade in trading of construction related materials in his personal capacity. He is also involved in Bishwash & Company Limited and Build Infra Private Limited.

Moderate capital structure with adequate debt service coverage ratio

BCPL's capital structure is moderate marked by overall gearing ratio of 1.75x at the end of FY22 which improved from 2.08x at the end of FY21 on account of increase in net worth amid accretion of profit to the reserve. BCPL's debt service coverage indicators have also remained adequate with interest coverage ratio of 4.99x in FY22, although moderated from 7.42x in FY21 due to decrease in PBILDT coupled with increase in interest expense amid higher rates in the market. Amid low capex requirement, and barring incremental working capital requirement, the company's debt levels are likely to remain proportionate to its scale, leading to gearing levels expected to be maintained at current level.

Moderate operating Cycle

The working capital cycle of BCPL appears to be moderate, primarily because the firm has low collection period and inventory period of 25 days and 9 days respectively at the end of FY22. As a result, the fund based working capital requirement for the company remains on the low side, which resulted in average utilization at around 70% of its sanctioned working capital borrowings during the last 12 months period ended mid-May 2023. The company generally allows around 15 to 45 days of credit period to its customer and moreover, it has a policy of discount on cash basis which reduced the operating cycle of the company in FY22 to 13 days. Although, discount policy impacted the profitability margins, it moderated the total operating cycle.

About the Company

Bishesh & Company Private Limited (BCPL) was incorporated in the year 2018. BCPL is involved in trading of construction materials such as steel, cement and hardware materials used in construction, based on the market demand. The registered office of the company is located at Ward no-10, Chaubise Kothi, Chitwan, Nepal. The company purchases the products from various suppliers and manufacturers) and sells them to the retail market via its distribution channel.

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

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,021	4,817	6,949
PBILDT Margin (%)	3.01	1.88	1.74
Overall Gearing (times)	1.83	2.08	1.75
Interest coverage (times)	5.23	7.42	4.99
Current Ratio (times)	1.09	1.14	1.15
Total Debt to Gross Cash Accruals (times)	3.71	3.44	4.03

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Fund Based Limit	63.85	CARE_NP BB+ [Double B Plus]
Short Term Bank Facilities	Fund Based Limit	526.15	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	70.00	CARE-NP A4+ [A Four Plus]
Total Facilities		660.00	

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About CARE Ratings Nepal Limited:

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