

Exim Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	99.25	CARE-NP B+ [B Plus]	Reaffirmed
Short Term Bank Facilities	950.75	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,050.00 (One Billion Fifty Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Exim Nepal Private Limited (ENPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ENPL continue to be constrained by its leveraged capital structure coupled with weak debt service coverage indicators and working capital intensive nature of business marked by elongated operating cycle at the end of FY23 (Unaudited, FY refers to twelve-month period ending mid-July). The ratings also factor in the product price volatility risk along with foreign exchange fluctuation risk and tender based nature of operations in highly competitive construction industry.

The ratings, however, derive strength from experienced management team with established track record as well as moderate scale of operations during FY23 with improving operating margin.

Going forward, the ability of the company to scale up its operations while maintaining its profitability margin and manage its working capital requirements, reducing reliance on external source of finance will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure and weak debt service coverage indicators

ENPL's capital structure stood highly leveraged marked by overall gearing ratio of 3.99x at the end of FY23 (FY22: 3.66x). Overall gearing remained high on account of high reliance on debt financing for meeting working capital needs. Similarly, debt service coverage ratio of the company stood modest with interest coverage ratio of 1.12x in FY23, which slightly deteriorated from 1.22x in FY22, on account of increase in finance cost. Similarly, total debt/GCA stood highly elevated at 126.55x in FY23 (FY22: 67.31x) and TOL/TNW of the company increased to 6.25x (FY22: 6.07x) at the end of the FY23. A limited gearing headroom limits the financial flexibility of the company and could constraint the company from raising additional debt, when required, in future.

Working capital intensive nature of business marked by elongated operating cycle

The operation of the company is working capital intensive in nature leading to high net operating cycle of 911 days in FY23 (FY22: 670 days). The average collection days stood high at 466 days in FY23, which slightly deteriorated from 433 days in FY22. The inventory turnover days elongated to 643 days in FY23 from 417 days in FY22. The company has high inventory holding majorly due to bulk purchase of inventories, based on contracts awarded, to be supplied to tender based projects. ENPL's average creditor days also stood relatively high at 198 days in FY23 (FY22: 180 days). Consequently, net operating cycle remained substantially high leading to increased reliance of the company on bank finance to meet its working capital requirements.

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

Product price volatility risk and foreign exchange fluctuation risk

ENPL procures Ductile Iron (DI) pipes from India and China. The price of DI pipes is market-linked, exposing ENPL to volatile input price risk. The cost of DI pipes constituted around 68% of the total operating income of the company during FY23. Thus, the volatility in prices of the same greatly impacts the profitability of the company. Furthermore, import of the product is mainly in USD, exposing ENPL to foreign exchange risk as well. The company's profitability hinges mainly on its ability to pass through changes in purchase prices to the customers in a timely manner.

Tender based nature of operations in highly competitive construction industry

The company receives majority of its work orders from government department related sanitation and water supply work. All contracts are tender based for which ENPL has to participate in tenders, wherein the company has to quote the bid and hence, it has to face the risk related to successful bidding for the same, which again comes with the risk of quoting at low price through e-bidding to sustain the competition. ENPL also enters into construction contracts, mainly through JV entities, in order to meet eligibility criteria for these contracts.

Key Rating Strength**Experienced management team with established track record of operations**

ENPL has been into trading of construction materials for more than two decades with trading arrangements with government as well as private entities. The company derives strength from its strong promoters belonging to Vaidya Group of Companies, which is involved in diversified businesses. The promoters of the company have experience of over two decades in trading and construction business. ENPL operates under the overall guidance of its three-member Board of Directors (BoD). Mr. Kiran Baidhya, Chairman, has more than two decades of experience in automobile and electronics trading and construction sector. Mr. Karan Vaidya, Director, has more than a decade of experience in construction field and is also involved in trading and hospitality business. The board of directors of the company is further supported by an experienced management team in the relevant field.

Moderate scale of operations in FY23 with improving operating margin

The company's TOI stood relatively moderate at Rs. 447 Mn during FY23 vis-à-vis Rs. 500 Mn during FY22, despite sluggish economic situation of the country, which halted the implementation of many projects. Furthermore, in FY24 so far, the revenue has been in increasing trend, with the company booking TOI of ~Rs. 300 Mn till November-end 2023. Similarly, PBILTDT margin improved to 26.67% in FY23 from 19.21% in FY22, due to decrease in cost of raw material prices. The company's ability to sustain growth in the operations while maintaining the profit margins remains critical from credit perspective.

About the Company

Exim Nepal Private Limited (ENPL) is a private limited company incorporated on September 16, 1993. The company is involved in trading of Ductile Iron (D.I.) pipes and fittings and land. ENPL is an authorized distributor of DI pipes and fittings of various Indian and Chinese manufacturing companies and also participates in various bids/tenders for supply of DI pipes and fittings. ENPL has its corporate office situated at Lazimpat, Kathmandu and four godowns located at Kirtipur, Bode, Hetauda, and Dhapasi.

Financial Performance:

(Rs. Million)

For the Period Ended Mid-July	FY21	FY22	FY23
	(A)	(A)	(UA)
Income from Operations	363	503	447
PBILDT Margin (%)	16.83	19.21	26.67
Overall Gearing (times)	3.00	3.66	3.99
Interest Coverage (times)	1.09	1.22	1.12
Current Ratio (times)	0.59	0.58	1.02
Total Debt/ Gross Cash Accruals (times)	166.04	67.31	126.55

A: Audited; UA Unaudited

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	99.25	CARE-NP B+
Short Term Bank Facilities	Working Capital Loans	899.25	CARE-NP A4
Short Term Bank Facilities	Letter of Credit/Bank Guarantee	51.50	CARE-NP A4
Total		1,050.00	

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