Reliable Industries Private Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	218.20	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	117.00	CARE-NP A4 [A Four]	Assigned
Long Term / Short Term Facilities	264.80	CARE-NP BB- / A4 [Double B Minus / A Four]	Assigned
Total Facilities	600.00 (Six Hundred Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the ratings of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Reliable Industries Private Limited (RIPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RIPL are constrained by operations stabilization risk associated with its newly set up manufacturing business, moderately leveraged capital structure albeit with modest coverage indicators and weak debt protection metrics, and working capital intensive nature of operations. The ratings also factor in raw material price volatility and foreign exchange fluctuation risk, and exposure to volatile interest rate. The ratings, however, derive strength from experienced promotors and management in the related field and locational advantage with diverse product portfolio. Company's foray into manufacturing business augurs well for its business profile with better margin prospects.

Going forward, the ability of the company to profitably scale up its operations while efficiently managing the working capital cycle resulting in improved solvency and coverage indicators will be the key rating sensitivities. The company's ability to generate cash flows as envisaged from the recently concluded capex would also be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Operations stabilization risk associated with manufacturing business

RIPL has set up a manufacturing plant (wire mesh and other allied products) with total capacity of 20,000 MTPA, which came into partial operations from July 2023. The total cost of the facility is ~Rs. 350 Mn, which is funded by debt to equity in the ratio of 75:25. Full-fledged operations is expected in second half of FY24 (FY refers to the twelve-month period ending mid-July). The company, transitioning from a trading focused business, remains susceptible to residual implementation risk and operations stabilization risk related to the capex for the manufacturing business. The ability of the company to generate sufficient cash flows from the manufacturing business by ramping up the operations as envisaged would bear significant impact on the credit risk profile of the company going forward.

Weak debt protection metrics

RIPL's capital structure was moderately leveraged at the end of FY23 with overall gearing ratio of 2.01x at the end of FY23. Gearing is likely to increase in FY24 owing to higher need for working capital borrowings for the manufacturing business. Furthermore, the company's debt protection metrics stood weak with total debt to gross cash accruals of 112x in FY23, indicating the company's debt levels remained substantially high in comparison to its cash accruals.

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

Working capital intensive nature of operations

RIPL's recent foray into the manufacturing of wire-mesh products is a working capital intensive business. The company procures raw materials majorly through imports using letter of credit. RIPL is required to maintain adequate inventory of raw material to ensure regular supply for uninterrupted operations. The company is also expected to provide reasonable credit to its suppliers. Together, these are expected to result in an elongated operating cycle leading to increased dependence on working capital borrowings. For trading business, average operating cycle stood at around 73 days during FY23, albeit improved from 157 days during FY22.

Raw material price volatility risk and foreign exchange fluctuation risk

Wire Rod is the major raw material for RIPL which is mainly imported from India and China. The prices of the RIPL's raw materials 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. Further, trading items are met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. RIPL's profitability margins will remain exposed to its ability to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks.

Exposure to volatile interest rate

RIPL's interest rates are based on floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly 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 changes in interest rates. The company's interest coverage ratio was modest at around 1.4x in FY23. However, with increasing debt levels, interest outgo is likely to increase in FY24. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity profile.

Key Rating Strengths

Experienced promoters and management in the related field

RIPL is managed under the overall guidance of the Company's Board of Directors (BoD) who possess wide industrial experience in manufacturing and trading businesses. Mr. Dhiraj Agrawal, Chairman, is also a promoter in Real Steels Private Limited (CARE-NP B+/A4) and a director in Shankar Press (one of oldest printing press in Nepal). He looks after overall activities including strategy and policy making of the company. Board of Directors is further supported by an experienced management team.

Increasing scale of operations; manufacturing business to boost business profile

RIPL's scale of operations has been in an increasing trend for the past three years (CAGR of ~208%). During FY23, the operating income increased to Rs. 537 Mn (FY22: Rs. 97 Mn), as the company was able to derive demand of its trading products through its increasing clientele and cross selling through group associations. Despite increase in total operating income, PBILDT margin moderated to ~3% in FY23 from ~7% in FY22 amid increased sale of low margin products. Trading business is generally associated with low margin prospects. However, with higher value addition in manufacturing products, the company's profitability is expected to improve going forward. While manufacturing business is likely to boost margin profile, the company's ability to ramp up the scale to achieve the envisaged benefits remains to be seen.

Locational advantage coupled with diverse product portfolio

RIPL is involved in trading of more than thirty hardware products as well as manufacturing of various wire-mesh products by importing raw materials mainly from India. The company's factory in Parsa district (central Nepal) has locational advantage both for importing raw materials from India and for supplying final products all over Nepal as well as for exporting to neighboring Indian cities, in case of demand.

About the Company

Reliable Industries Private Limited (RIPL) was incorporated in 2017 in Nepal. The company is engaged in manufacturing of various wire-mesh products since July 2023, prior to which it was involved in trading of hardware products. The company also manufactures binding and galvanized wire, with various ranges depending on their sizes, dimensions, thickness to be used for various applications. The company's manufacturing facility is situated in Parsa district of Nepal with total installed capacity of 20,000 MTPA.

Brief financials of RIPL for the past three years are given below:

(Rs. Million)

For the year ended Mid-July	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	57	97	537
PBILDT Margin (%)	5.05	7.38	3.09
Overall Gearing (times)	2.60	3.33	2.03
Interest Coverage (times)	1.89	1.28	1.39
Current Ratio (times)	1.19	1.08	1.33
Total Debt/Gross Cash Accruals (times)	27.95	61.37	111.74

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	218.20	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limits	117.00	CARE-NP A4 [A Four]
Long Term / Short Term Bank Facilities (Proposed)	Fund / Non-Fund Based Limits	264.80	CARE-NP BB-/ A4 [Double B Minus /A Four]
Total		**600.00**	

Contact us

Analyst Contacts
Ms. Dristi Acharya
+977-01-4012630
dristi.acharya@careratingsnepal.com

Mr. Santosh Pudasaini
+977 9802312855
pudasaini.santosh@careratingsnepal.com

Relationship Contact
Mr. Achin Nirwani
+977 9818832909
achin.nirwani@careratingsnepal.com

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