

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]	Reaffirmed
Short Term Bank Facilities	540.00	CARE-NP A4 [A Four]	Reaffirmed
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 reaffirmed the rating of 'CARE-NP B+' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned 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 remain constrained by its highly leveraged capital structure with weak debt service coverage indicators and working capital intensive nature of business leading to high reliance on bank borrowings. The ratings also factor exposure to volatile interest rates, and GISPL's presence in a competitive and fragmented industry. The ratings, however, continue to 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

Although GISPL's total operating income has increased substantially during FY23 (FY refers to twelve-month period ending mid-July) marked by y-o-y growth of 198%, profitability indicators stood modest as indicated by PBILDT margin and PAT margin of 3.39% and 0.37% respectively in FY23. The company's profitability margins have remained on the lower side in FY23 owing to trading nature of the business and intense market competition given the presence of GISPL in a highly fragmented nature of industry.

Capital structure of GISPL has remained highly leveraged with an overall gearing of 3.80x at the end of FY23 (FY22:4x) amid high reliance on external borrowings, especially working capital loans. Consequently, interest coverage ratio stood modest at 1.12x during FY23 (FY22:0.97x) and total debt debt/ GCA stood very high at 73.12x on account of low net profitability leading to low GCA levels. Amid subdued profit generation coupled with elevating interest outgo, the company has previously depended on financial support from promoters in the form of equity injection to meet any shortfall in meeting its obligations. 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 opening of letters of

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

credit. With average collection period of 43 days (FY22: 68 days), average inventory period of 38 days (FY22: 56 days) and average creditor period of 8 days (FY22: 14 days), operating cycle improved to 74 days at the end of FY23 from 110 days at the end of FY22, on account of improvement in average collection period as well as inventory days. Although improved from FY22 levels, working capital intensive nature of business operations led to high reliance of the company on the bank finance. Consequently, the company had almost fully utilized its fund-based working capital limits during the last twelve-month period ended mid-January, 2024.

Exposure to volatile interest rates

GISPL's interest rate is based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on a monthly basis. Interest coverage stands at 1.12x and any rate hikes could put additional 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 have 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 FY24, Government of Nepal has allocated Rs. 131.59 Bn towards development of infrastructure, energy. Government's high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures as included in the budget for FY24 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	FY21 (A)	FY22 (A)	FY23 (A)
Income from operations	669	898	1,780
PBILDT Margin (%)	4.65	5.60	3.39
Overall Gearing (times)	7.58	4.00	3.80
Interest Coverage (times)	0.97	0.97	1.12
Current Ratio (times)	1.22	1.23	1.20
Total Debt/ Gross Cash Accruals	230.08	251.74	73.12

*A: Audited

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 Limits	310.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	230.00	CARE-NP A4
Total		710.17	

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About CARE Ratings:

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