

Bhusal Cable and Wire Industries Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	85.65 (Decreased from Rs. 93.33 Mn)	CARE-NP BB- [Double B Minus]	Revised from CARE-NP BB [Double B]
Short Term Bank Facilities	100.00	CARE-NP A4 [A Four]	Reaffirmed
Short Term Bank Facilities	527.68 (Increased from Rs. 520.00 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	713.33 (Seven Hundred Thirteen Million and Three hundred and Thirty Thousand Only Million)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating of 'CARE-NP BB-' to the long term bank facilities and reaffirmed 'CARE-NP A4' to the short term bank facilities of Bhusal Cable and Wire Industries Private Limited (BWPL).

Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned to the bank facilities of BWPL factors in highly leveraged capital structure and elongation of working capital cycle leading to weakening of liquidity profile of the company. The rating continues to be constrained by limited track record of the operations, raw material price volatility risk, foreign exchange fluctuation risk, presence in highly competitive nature of cable industry and exposure to volatile interest rates.

The ratings however, continue to derive strength from experienced management team and growing scale of operations and improving margins. The ratings also factor in diverse product range, demand of cables & wires in the country and locational advantage of manufacturing facilities.

Ability of BWPL to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management would be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure and modest debt service coverage indicators

The capital structure of BWPL was highly leveraged marked by very high overall gearing ratio of above 95x as on mid-July 2021. The total debt of BWPL increased by Rs. 336 Mn and stood at Rs. 808 Mn as on mid-July 2021 mainly on account of higher reliance on working capital loan to support the growing scale of operations. The company had negative net-worth base on account of significant losses incurred in the past and promoters infused Rs. 60 Mn during FY21 (FY refers to 12 months period ended mid-July) to support the funding requirements and maintain liquidity in the company. The highly leveraged capital structure limits the company's financial flexibility in times of stress. Furthermore, debt service coverage indicators stood weak as reflected from high total debt to GCA and low interest coverage of at 56.40x and 1.28x respectively for FY21. The debt service coverage indicators are showing deterioration on y-o-y basis on account of increasing debt levels. Despite increase in scale of operations, profitability of the company remains modest on account of high interest cost.

Elongated working capital cycle with stressed liquidity profile

The operations of the company are working capital intensive in nature marked by high operating cycle of 186 days and below unity current ratio in FY21. BWPL is comparatively new player and in order to establish market, the company is required to provide higher credit period to its customers leading to high average collection period of around 3-4 months. In order to meet the immediate demand of its customers and having large product portfolio, the company has to keep minimum inventory of finished goods and also of raw material on account of lead time of 30 days leading to high inventory days of around 3 months. The company purchases raw materials from India and also from domestic market and has an average payable period of around 15 days. Due to high operating cycle, BWPL has increased its reliance on working capital loans to finance its working capital requirements. The average utilization of fund-based working capital limit against drawing was around 90% during last 12 months' period end mid-July, 2021.

Raw material price volatility and foreign exchange fluctuation risks

The prices of major raw materials for BWPL i.e. aluminum and copper are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices having bearing on its profitability margins. The raw material cost was around 87% of the total operating income in FY21. Furthermore, majority of raw material requirement is met through imports and the prices of the same are linked to USD, thereby exposing the company to foreign exchange fluctuation risk. However, BWPL has entered into forward booking of its foreign currency exposures thereby, minimizing the risk of fluctuations in foreign exchange. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation is crucial to improve its liquidity and profitability.

Presence in highly competitive nature of cable & wires industry

The cable & wire 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 are exposed to competition-induced pressures on profitability. The demand of cables and wires is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. 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 companies.

Key Rating Strengths***Experienced management team***

BWPL derives strength from its strong promoters belonging to the Bhusal family involved in diversified business of manufacturing and trading. The promoters of company have an experience of over two decades in various industries. BWPL is managed under the overall guidance of its four-member Board of Directors (BoD) having wide experience in the manufacturing sector. Mr. Balkrishna Bhusal, Chairman of BWPL, has more than 20 years of experience. Mr. Amrit Bhusal, executive director in BWPL, has an overall 10 years of experience in family business. He looks after the overall operations of the company.

Growing scale of operations

For the period FY18-FY21, BWPL's total operating income grew from Rs. 38 Mn to 767 Mn reflecting a compounded annual growth rate of around 173% on account of increase in customer base coupled with improvement in average price realization. The company has large product portfolio having diversified margins. On account of change in the sales mix, the PBIDLT margin of the company improved in FY21 and stood at 8.76% in FY21 (~6.22% in FY20). The increased

dependence on external borrowings led to high interest burden which restricts the net profitability of the company and PAT margin stood modest at 0.29% in FY21 with reported profitability of Rs. 2 Mn.

Diverse product range catering to wide spectrum of industries and established marketing setup coupled with locational advantage of manufacturing facilities

BWPL has been manufacturing wires and cable products of wide range with varied usages. The company is into manufacturing of ACSR conductors and ABC cables which are used in overhead distribution and high voltage power transmission. House wiring cables, power cables have various applications in the household, commercial buildings, hospitals and all types of industries. BWPL sells its products all over Nepal and the sales are made to both wholesale as well as retail customers. The company has an established customer base of more than 400 dealers/retailers all over Nepal who sell various cable products to the end customers. Furthermore, the manufacturing facilities is located in Butwal Industrial Estate, around 5 Kms from Indo-Nepal borders in Sunauli dry-port. Since majority of raw materials used by BWPL are in the form of imports through India, the manufacturing facilities proximity close to the border provides advantage to the company in terms of savings in freight cost.

Demand of cables and wires in the country

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of cables and wires in developing various housing infrastructures and power facilities for development of overall economy. In the recent budget presented by finance minister of Nepal for FY22, government has allocated funds for post-earthquake reconstruction of private housing, archeological heritage, school building, government building and for development of energy sector. The government's high emphasis on construction, infrastructure development, namely development of hydropower projects, airports and other infrastructures as included in the budget for FY21-22 is likely to benefit the cable manufacturers like BWPL.

About the Company

Bhusal Cable & Wire Industries Private Limited (BWPL) is a private limited company which was initially incorporated under the name of Patwa Cable Industries Private Limited in 2005. Later on, in 2017, the company was taken over by the present management and the name of the company was changed to Bhusal Cable & Wire Industries Private Limited. The company is involved in manufacturing of various wires and cables with plant located in Amasatiya, Rupandehi, Nepal.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Income from Operations	271	587	767
PBILDT Margin (%)	16.03	6.22	8.76
Overall Gearing (times)	-ve	-ve	95.11
Interest Coverage (times)	2.15	1.60	1.28
Current Ratio (times)	0.67	0.93	0.93
Total Debt/ Gross Cash Accruals (times)	9.21	35.50	56.40

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	85.65	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	100.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	527.68	CARE-NP A4
Total		713.33	

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About CARE Ratings Nepal Limited:

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