

## Exim Nepal Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	106.91	CARE-NP B+ [B Plus]	Assigned
Short Term Bank Facilities	381.85	CARE-NP A4 [A Four]	Assigned
Short Term Bank Facilities	561.25	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,050.00</b> <b>(One Thousand and Fifty</b> <b>Millions Only)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' 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 are constrained by leveraged capital structure coupled with weak debt service coverage indicators, working capital intensive nature of business, product price volatility risk with foreign exchange fluctuation risk, tender based nature of operations in highly competitive construction industry and exposure to volatile interest rates

The ratings, however, derive strength from experienced management team with established track record of operations, growing scale of operations & moderate operating margins.

*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 to support growth will be crucial and act as the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Leveraged capital structure and low debt service coverage indicators of the company

Total debt of the company stood at Rs 638 Mn as on mid-July 2021 which included term loan of Rs. 107 Mn and working capital loan of Rs.531 Mn. Capital structure of the company is leveraged marked by overall gearing of 3.00x at the end of FY21. Overall gearing remained high on account of high reliance on debt financing. The company had purchased a land parcel of Rs. 403 Mn in FY18 which was mainly financed through debt. The management has plans to construct corporate office on part of land and balance is for trading purposes. On account of high debt levels, the debt service coverage indicators stood weak. The interest coverage ratio of the company stood just above unity in the last 2 financial years (FY20 & FY21) and Total debt/GCA remained very high at above 100 x in FY21.

#### Working capital intensive nature of business

The operation of the company is working capital intensive in nature marked by high operating cycle of 228 (excluding land which is treated as inventory). ENPL normally allows credit term upto 90 days; however, have extended the credit period during pandemic which has resultant into high receivable days. The average collection days remained high at 255 days in FY21 which elongated from 104 days in FY20. The inventory turnover days (excluding land) remained at higher side at 471 days in FY21. The company has high inventory holding majorly due to bulk purchase of inventories based on contracts awarded, to be supplied to tender based projects the turnover of which is affected by progress of projects which were

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications

mostly delayed. Majority of the procurements are in form of imports through letter of credit and ENPL's creditors balance also stood high at 499 days in FY21. These factors lead to reliance of the company on bank finance to meet its working capital requirements which was around at around 90% ending mid- November, 2021.

#### **Product price volatility risk with bearing on profitability and foreign exchange fluctuation risk**

ENPL procures DI pipes from India and China with 84% of total imports from India. The price of DI pipes has been in increasing trend in the international market exposing ENPL to risk from price volatility. The cost of DI pipes constituted around 72% of the total operating income of the company during FY21. Thus, the volatility in prices of the same impacts the profitability of the company. The ability of the company to pass through changes in purchase prices to the customers is critical for the company to maintain its profitability margins. Furthermore, the import of the product is linked to USD exposing ENPL to foreign exchange risk. ENPL booked foreign exchange gain / losses in FY19 and FY20.

#### **Tender based nature of operations in highly competitive construction industry**

The company receives its majority of work orders from government department related sanitation and water supply work. The high concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. The tender based business is characterized by intense competition and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

#### **Key Rating Strength**

##### **Experienced management team with established and long track record of operations.**

ENPL has been into trading of construction materials for more than 25 years with trading arrangements with government as well as private entities. The company drives strength from its promoters belonging to Vaidya Group of Companies which is involved in diversified business of trading and construction. The promoters of the company have an experience over two decades in trading and construction business. ENPL is managed under the overall guidance of its three Board of Directors (BoD) having wide experience in trading sector. Mr. Kiran Baidhya, Chairman, has around 25 years of experience in automobile and electronics trading and construction work. Mr. Karan Vaidya has more than 15 years of experience in construction field and is involved in trading and hospitality sector. The board of directors of the company are further supported by experience management team.

##### **Growing scale of operations and moderate operating margins**

For the period FY19-FY21, ENPL's total operating income grew from Rs. 246 Mn to Rs. 364 Mn reflecting a compounded annual growth rate of around 21%. The operating income increased on y-o-y basis on account of recurring demand from government entities including from national pride project from Melamchi Water Supply Development Board as well as from private contractors. The company has satisfactory PBIDLT margin which stood at 18.32% % in FY21. The margins remained high in FY20 on account of fluctuating raw material price leading to inventory gains.

#### **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 D.I pipes and fittings. ENPL has its corporate office situated at Lazimpat, Kathmandu and 4 godowns located at Kirtipur, Bode, Hetauda and Dhapasi.

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

(Rs. Million)

For the Period Ended / as at Mid-July,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	246	267	364
PBILDT Margin (%)	20.59	27.02	18.32
Overall Gearing (times)	4.63	3.02	3.00
Interest Coverage (times)	1.67	1.16	1.20
Current Ratio (times)	1.23	1.16	1.08
Total Debt/ Gross Cash Accruals (times)	43.72	110.70	107.30

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	106.91	CARE-NP B+ [B Plus]
Short Term Bank Facilities	Working Capital Loans	381.85	CARE-NP A4 [A Four]
Short Term Bank Facilities	Letter of Credit	561.25	CARE-NP A4 [A Four]
<b>Total</b>		<b>1050.00</b>	

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