Lumbini Vidyut Udyog Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities – Term Loan	495.40	CARE-NP BB	Assigned
Short Term Bank Facilities - Working Capital Loans	420.00	CARE-NP A4	Assigned
Short Term Bank Facilities - Non-Fund Based Limits	814.60	CARE-NP A4	Assigned
Total Facilities	**1,730.00**		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Lumbini Vidyut Udyog Private Limited (LVPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of LVPL is constrained by its low profitability margins, leveraged capital structure and modest debt service coverage indicators, raw material price volatility risk and foreign exchange fluctuation risk. The ratings also factor in elongated operating cycle leading to high reliance on working capital borrowings, project stabilization risk and its presence in highly competitive nature of cable industry.

The ratings, however, drive strength from long track record of operations along with experienced promoters, diversified product range catering to wide spectrum of industries and established marketing setup with brand presence and locational advantage. The ratings also factor in growing scale of operations and favourable demand outlook of the industry.

Going forward, the ability of LVPL to increase its scale of operations while improving its profitability margins, and improving its capital structure while reducing its debt levels will be key rating sensitivities. Any further elongation in operating cycle will also act as key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Constraints

Leveraged capital structure and modest debt service coverage indicators

Total debt of the company stood at Rs. 1,396 Mn comprising long-term borrowings of Rs. 339 Mn and working capital loans of Rs. 1,057 Mn at year end FY21 (Provisional). The capital structure of the company is leveraged marked by overall gearing ratio of 3.29x at the end of FY21 and remained almost stable over previous balance sheet date. Though total debt of the company increased significantly by Rs. 666 Mn from the previous balance sheet date; overall gearing remained almost stable on account of increase in tangible net worth base of the company due to infusion of additional equity of Rs. 171 Mn coupled with accretion of profits into reserves. The increase in debt levels was on account of increase in working capital borrowings to support the growth in operations and increase in term loans for expansion and up-gradation of plant and machinery.

On account of high debt levels, the company had modest debt service coverage indicators as reflected from modest interest coverage of around 1.6 times and high total debt to GCA of above 30x for FY20 (FY refer to 12 months period ended mid-July).

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

Elongated operating cycle leading to high reliance on working capital borrowing

The operations of the company are working capital intensive in nature as reflected by high average utilization of working capital borrowings which stood at above 95% for last 12 months ended mid-September, 2021. The operating cycle remained high primarily due to high inventory period. Being a manufacturing company, LVPL is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply of raw material for uninterrupted manufacturing operations, the average inventory period remained high at around 129 days during FY21. Also, the product portfolio of the company is large catering to multiple segment of various industries which also led to high inventory holding. Being a highly competitive business, the average collection period remained high at around 69 days in FY21. The main raw material is non-ferrous metal which is procured through letter of credit and average payable period of around 6 days; combining all entails an elongated operating cycle. Total operating cycle of the company was high at 214 days in FY20 which marginally improved to 192 days in FY21.

Project stabilization risk

LVPL has recently undergone expansion and modernization of existing facilities in order to enhance its efficiency as well as production capacity by replacing old machineries with new automated machines. The total cost for the capex is ~ Rs. 647 Mn which has been funded in the debt equity mix of 80:20. In the last two years, the promoters have infused fund for the capex as well as for supporting the working capital requirements of the company. The said expansion cum moderation project commenced commercial operations in September 2021. Early stabilization of the project will be crucial for the company for generation of incremental revenue and will remain key monitorable aspect from analytical perspective.

Raw material price volatility risk and foreign exchange fluctuation risk

Raw material constituted more than 80% of the total cost of production for the last 2 years (FY20 and FY21). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of Copper and Aluminium which fluctuates widely with global demand and supply scenario. This has bearing on LVPL's profitability margins. These raw materials are imported from India and Dubai.

Further, the realization of sales is completely in the Nepalese currency while cash outlay for procurement is in foreign currency (USD) which exposes LVPL to the fluctuation in exchange rates. LVPL incurred foreign exchange losses during FY20 and FY21. Though the company tries to pass on the price and currency volatility to the end users, any adverse fluctuations in the currency markets may put pressure on the profitability of the company

Presence in highly competitive nature of cable industry

The cable industry is intensely competitive 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 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

Established and long track record of operations along with experienced promoters

LVPL has an operational track record of more than four decades in manufacturing wires and cables with wide range based on size, dimension and thickness. LVPL derives strength from its promoters being a part of the Ramesh Corp, a diversified business conglomerate in Nepal with presence in diversified businesses which includes manufacturing, service, and trading. The promoters of LVPL have an experience of more than a decade in the wires and cables industry.

LVPL is managed under the overall guidance of its two members Board of Directors (BoD). Mr. Rohit Gupta, managing director of LVPL and also the vice-chairman of Ramesh Corp, has more than 12 years of experience.

Diverse product range catering to wide spectrum of industries and established marketing setup

LVPL produces wires and cables in various variants as per the demand in the market. ACSR conductors and ABC cables 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. The wide application not only diffuses the risk of dependency on a single industry and also allows the company to cater to a larger market with a broad customer base.

LVPL sells its product all over Nepal through dealer network of 135 registered dealers established by the company. Most of the sales revenue comes through sales through these dealers followed by tender based sales to NEA and project sales to various hydropower projects. During FY20, LVPL reported ~43% of revenue through dealers as well as direct sales, ~37% through tender based sales and ~20% through sales to various projects.

Established brand presence and locational advantage

The company sales wires and cables under two brand names "Litmus Cables" and "Lotus Wires". Enamel wires are sold under the brand name of "Lotus Wires" whereas housing wires are sold under the brand name of "Litmus cables". These being established brand in the Nepal market on account of its long-standing presence, provide leverage to the company in front of new players entering the industry.

The plant site is located in Butwal Industrial Estate, around 26 Kms from Indo-Nepal borders in Sunauli dry-port. Since majority of raw materials used by LVPL are imported through India, the factory's proximity to the border remains a positive point leading to savings in huge freight cost.

Growing scale of operations albeit low profitability margins

For the period FY18-FY21, LVPL's total operating income grew from Rs. 949 Mn to Rs. 1,559 Mn reflecting a compounded annual growth rate of around 18%. Furthermore, in Q1FY22, LVPL has booked total operating income of around Rs. 400 Mn. The company's profitability margins have been historically on the lower side owing to intense market competition in the industry. This apart, interest burden on working capital borrowing also restricts the net profitability of the company. Despite the growth in total operating income, PBILDT margin declined during the same period from 8.75% in FY19 to 6.04% in FY21 on account of change in product mix, increase in raw material costs and significant portion of sales from government business (through tenders) where the company's restricted to pass on the same.

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, government has allocated funds for post-earthquake reconstruction of private housing, and other civil structures as well as development of energy sector. Government commitment towards infrastructure and rebuilding the housing sector has increased demand of various cables in Nepal. The government's high emphasis on construction, infrastructure development, namely development of hydropower projects, airports and other infrastructures and estimated GDP growth of 6.50% as included in the budget for FY21-22 is likely to benefit the cable manufacturers like LVPL.

About the Company

Lumbini Vidyut Udyog Private Limited (LVPL) is a private limited company incorporated on July 10, 1978 for manufacturing Wires and Cables, having plant in Butwal, Rupandehi, Nepal. The company is a part of Ramesh Corp. The company manufactures various types of cables by importing its raw materials from India and Dubai and sells them in the domestic market under two brand names being "Litmus Cables" and "Lotus Wire".

Brief financials of LVPL for last three years ending FY21 are given below:

(Rs. In Million)

Particulars for the year ended Mid July	FY19 (A)	FY20 (A)	FY21(A)
Income from Operations	1,033	1,104	1,559
PBILDT Margin (%)	8.75	6.69	6.04
Overall Gearing (times)	3.61	3.30	3.29
Interest Coverage (times)	1.62	1.59	2.04
Current Ratio (times)	1.20	1.17	1.25
Total Debt/ Gross Cash Accruals (times)	29.63	33.88	30.71

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
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Short Term Bank Facilities	Non-Fund Based Limits	814.60	CARE-NP A4
Total		**1,730.00**	

Contact us

Analyst Contact
Mr. Santosh Pudasaini
Contact No.: +977-01-4012629
Email: santosh.pudasaini@careratingsnepal.com

Senior Analyst
Ms. Shalini Sanghai
Contact No.: +977-01-4012629
Email: shalini.sanghai@careratingsnepal.com

Relationship Contact
Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

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