

Laxmi Aluminium Industries Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	400.00	CARE-NP B [Single B]	Assigned
Short Term Bank Facilities	200.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	600.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned ratings of 'CARE-NP B' to long-term bank facilities and 'CARE-NP A4 [A Four]' to the short-term bank facilities of Laxmi Aluminium Industries Private Limited (LAIPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of LAIPL are constrained by the initial stages of construction of its manufacturing facility leading to high project implementation risk associated with the project. The ratings are further constrained by exposure to volatile interest rate, raw materials price volatility risk and working capital intensive nature of business.

The rating, however, derives strength from experienced promoters in both trading and manufacturing industry, group synergy supported by presence in home décor segment products, steady demand outlook for aluminium products in the country and locational advantage for procurement of raw materials and selling its products.

Going forward, the ability of company to timely execute of the project within the expected commercial operation date (COD) avoiding any time or cost overrun will be the key rating sensitivities. Also, the ability of LAIPL to achieve the envisaged scale up the operations and profitability would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project Implementation and Stabilization Risk

LAIPL is setting up a manufacturing facility in Duhabi-03, Sonapur, Sunsari for manufacturing/remolding aluminium dust into aluminium profile. The project is expected to be operational by September 2022. The estimated cost for the project is Rs. 483 Mn which is proposed to be financed through debt-equity in the ratio of 80:20 (i.e. Rs. 386 Mn as term loan and Rs. 97 Mn as equity). The debt for the same has been fully tied up and equity of Rs. 45 Mn has been infused till April 13, 2022. As on April 13, 2022, the company had incurred around 27% of the estimated project cost. Since the project is still in initial stages of construction phase, LAIPL remains exposed to the risks associated with project implementation and also to satisfactory operations thereafter.

Raw material price volatility risk

The main raw materials required for aluminium are aluminium ingots, scrap and blades which are majorly imported from India. The prices of the aluminium scarp 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. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be critical for the company's profitability.

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

Working capital intensive nature of business

LA IPL will be involved in manufacturing of different types of aluminium profiles by majorly importing raw materials from India and other countries. The company will need to keep adequate levels of inventory due to the long lead time for imports to rule out any stock outs. Furthermore, the company will also need to fund the debtors which might lead to high reliance on working capital limits.

Exposure to volatile interest rates

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate

Key Rating Strengths**Synergies from being part of the Hanumanta group of Industries and promoters having prior experience in related industry**

LA IPL is one of the six companies under the Hanumanta group of companies involved in manufacturing and trading of various home décor products. LA IPL is promoted by individual and institutional promoters. Mr. Manoj Agarwal, Executive director, has over 10 years of experience in manufacturing and trading sector. The promoters of the company also have an established trading business for aluminum profiles, namely Laxmi Aluminum and Glass Private Limited. With the group already operating in the similar line of business in the Nepalese market, it gives LA IPL an advantage of additional distribution channel for marketing of its goods and opportunities for cross-selling.

Locational advantages for procurement of raw materials and selling its products

LA IPL is setting up its factory in Sonapur, Sunsari, Nepal and lies adjacent to Biratnagar city and around 27 kms from the Biratnagar customs office. Since majority of raw materials used by LA IPL are imported through India, the factory's proximity to the Indian border provides a competitive advantage in terms of savings in freight cost.

Demand of aluminium products in the country

Nepalese economy is developing and growing, and is in phase of development of infrastructure sectors, notwithstanding the impact of the covid-19 pandemic. After the earthquake of 2015, which damaged thousands of homes across the country creating demand for construction materials, demand for aluminium has steadily increased in the country. Aluminium's sustainability, affordability, simplicity, and aesthetic appeal has made it an appealing choice across the country. Aluminium parts are becoming more attractive as they are lighter and are supposed to create less damage in case of massive earthquake. Government commitment towards infrastructure and rebuilding the housing sector followed by increasing preference for aluminium products augurs well for the business prospects of LA IPL over the medium term.

About the Company

Laxmi Aluminium Industries Private Limited (LA IPL) is a private limited company incorporate on April 22, 2021. The company is constructing a facility covering area of 56,604 square feet for manufacturing aluminium profiles, which have uses majorly in the residential and commercial building construction. Expected monthly production capacity will be 400 metric ton.

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	400.00	CARE-NP B
Short Term Bank Facilities	Fund Based Limits	200.00	CARE-NP A4
Total		600.00	

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