Touch Lamp Power Engineering Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**695.20**	**CARE-NP B+ [Single B Plus]**	**Assigned**
Short Term Bank Facilities	**474.80**	**CARE-NP A4 [A Four]**	**Assigned**
Total Facilities	**1,170.00 (One Billion One Hundred and Seventy Million Only)**		

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 the rating of 'CARE-NP A4' to the short term bank facilities of Touch Lamp Power Engineering Private Limited (TPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TPPL are constrained by the company's weak financial risk profile with modest debt service coverage indicators, project implementation risk associated with the company's ongoing greenfield project, working capital intensive nature of business leading to reliance on bank borrowings, presence in highly competitive industry and exposure to volatile interest rates.

The ratings, however, derive strengths from TPPL's experienced promoter with the company being part of an established business group having long track record and presence in diversified sectors, growing scale of operations with moderate profitability and locational advantage.

Going forward, the company's ability to manage its working capital requirements while supporting profitable growth of operations leading to improvement in capital structure and debt service coverage indicators would be the key rating sensitivities. Furthermore, timely completion of the ongoing project within the cost estimates, and satisfactory operations thereafter would also be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak financial risk profile with modest debt service coverage indicators

Although TPPL's overall gearing improved to 2.16x at the end of FY22 (Unaudited; FY refers to the twelve-months period ending mid-July) from 3.61x at the end of FY21 (Audited), the company's overall financial risk profile remains marked by weak coverage indicators amid relatively high debt levels coupled with modest profitability margins. While the capital structure improved in FY22 aided by addition of Rs. 90 Mn equity share capital, this was partially offset by the increase in total debt by Rs. 79 Mn coupled with increasing interest rates in the market. Consequently, interest coverage ratio of the company stood modest at 1.14x during FY22, deteriorating from 1.48x in FY21 on account of higher interest outgo in FY22. Similarly, total debt/ GCA of the company was very high at 74.09x at the end of FY22, increasing further from 63.79x at the end of FY21. The ability of the company to rationalize its debt levels while improving its debt coverage indicators is critical from credit perspective, which however is likely to remain a challenge over the near-term given the ongoing partly debt funded capex of the company.

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

Project implementation risk

TPPL is currently undertaking a greenfield project whereby the company is enhancing the existing capacities and setting up new lines for new products. The capex includes relocation and enhancement of the existing LED bulb assembling unit, installation of copper cable manufacturing unit along with an aluminum cable manufacturing unit and installation of a transformer assembling unit. The total project cost is estimated at around Rs. 1,000 Mn with funding mix of Debt to Equity in the ratio of 65:35. As on mid-January 2023, around 50% of the project expenses has been incurred. It is expected that the commercials products from the lines would commence from October 2023. The debt funding of the project has been tied up to the tune of around 50%, along with equity share capital of 175 Mn. Hence, timely completion of project after financial closure and within the envisaged cost would be crucial for the company and also key monitorable.

Working capital intensive nature of business

The operations of TPPL are working capital intensive in nature as the company purchases its trading products and assembling parts through imports, mainly from India and China. The company needs to procure raw materials through letter of credit and also needs to fund inventory and debtors which lead to high reliance on working capital borrowings. In FY22, the company's average collection period was 30 days, average inventory period was 51 days and average creditor period was 4 days, thus leading to the average operating cycle of 77 days. This led to reliance of the company on the bank finance for working capital requirements, resulting in average utilization of sanctioned working capital limits at over 95% for the twelve-month period ended mid-January 2023. The ability of TPPL to efficiently manage working capital requirements leading to lesser dependence on external borrowings would be critical from credit perspective.

Presence in highly competitive market

Given the presence of multiple players and brands in the consumer electronics, home appliances and electric materials segment, the competition in the industry is high. The cable industry is also intensely competitive and fragmented, marked by the presence of both large players and numerous smaller players in the unorganized segment. With increase in the capacities of the existing plants and new capacities coming into operation, competition has intensified. Increasing competition has impacted the profitability margins of the industry players mainly in case of tender sales. In order to push sales to sustain the competition, credit sales in the market leading to increased debtor days and high working capital requirement. The competition is further exacerbated by the entry of newer brands as well as large volume of imports from informal/ alternative channels.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. Any further significant rate hikes could put increased 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.

Key Rating Strengths

Experienced promoter

TPPL 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. The group has been involved in manufacturing of TMT bars, HDPE pipes, garden pipes & water tanks, trading and supply of construction materials, 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 TPPL.

Growing scale of operations

TPPL's scale of operations has grown at a compounded annual growth rate of 73.62% over the past three financial years (FY19-FY22) leading to total operating income of Rs. 634 Mn in FY22. Till FY19, the company's operations had been limited to trading of electric appliances and electric materials used in construction of houses. During FY20, TPPL started selling LED bulbs after assembling in its own unit, thus leading to added products in its portfolio and consequently increased scale of operations. With increase in total revenue, PBILDT margin of the company also increased gradually to from 4.74% in FY19 to 6.75% in FY22. The company's scale of operations is expected to grow even more after the completion of the ongoing capex. Swift stabilization of operations is expected given the track record of the management. The extent to which the company is able to utilize enhanced capacity and improve its scale of operations, however, remains to be seen.

Locational advantage

TPPL's manufacturing and storage facility is situated in Hetauda, Makawanpur. Hetauda, the capital city of Bagmati Province, is one of the fastest growing cities of Nepal. The company imports majority of its raw materials and trading goods from India via Birgunj Custom Port, the largest custom port of Nepal, which is around 55 km from the company's 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.

About the Company

Touch Lamp Power Engineering Private Limited (TPPL) is a private limited company established in January 25, 2012. TPPL is engaged in manufacturing (assembling) of LED bulbs, trading of household electric appliances, trading of electric equipments such as wires and cables used in construction, and repair of electric transformers. The manufacturing facility of the company (LED bulb assembling unit) is located within Hetauda Industrial District in Hetauda, Nepal with annual capacity of 800,000 units.

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

(Rs. in Million)

For the period ended	FY20 (Audited)	FY21 (Audited)	FY22 (Unaudited)
Income from operations	194	296	634
PBILDT Margin (%)	5.13	5.12	6.75
Overall Gearing (times)	1.86	3.61	2.16
Interest Coverage (times)	3.40	1.48	1.14
Current Ratio (times)	4.83	1.83	1.88
Total Debt/ Gross Cash Accruals	7.44	63.79	74.09

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	695.20	CARE-NP B+
Short Term Bank Facilities	Fund Based	424.80	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	50.00	
Total		**1,170.00**	

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