

Mahalaxmi Wire & Cable Industries Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	538.40	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	1640.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,178.40 (Two Thousand One Hundred Seventy Eight Million and Four Hundred Thousand Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Mahalaxmi Wire & Cable Industries Private Limited (MWCI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MWCI are constrained by its highly leveraged capital structure with modest debt service coverage indicators, declining trend in operating income during FY22 (Audited; FY refers to the twelve-month period ending mid-July) coupled with minimal net profitability amid increasing finance cost. The ratings also factor in MWCI's working capital intensive nature of operations, raw material price volatility risk and foreign exchange fluctuation risk, presence in highly competitive nature of industry and exposure to volatile interest rate.

The ratings, however, derive strength from MWCI's established track record of operations along with experienced promoter and management team in the related field, diverse product range catering to wide spectrum of industries and established marketing setup and stable demand outlook for its products over the medium-term in the country.

Going forward, the ability of the company to profitably scale up its operations along with rationalization of its working capital requirements leading to improvement in solvency position and coverage indicators would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly leveraged capital structure and modest debt service coverage indicators of the company

MWCI's capital structure is highly leveraged, marked by an overall gearing ratio (excluding unsecured loans from promoters) of 4.09x at the end of FY22. Although this improved slightly from 4.36x at the end of FY21 owing mainly to reduction in debt, the company's debt levels and gearing levels still remain on the higher side. Furthermore, debt service indicators of MWCI were modest in FY22 with interest coverage ratio of 1.37x (FY21: 2.82x) and Total debt/ gross cash accruals (GCA) of 29.04x for FY22. Similarly, the firm's total outside liabilities/tangible net worth stood high at 5.91x at the end of FY22. Rationalization of debt levels is critical for the firm's financial flexibility as the current gearing headroom remains minimal.

Declining operating income during FY22 with low net profitability amid high finance cost

The company is involved in manufacturing and trading of various types of wires, cables, motor parts, fans, pipes and fittings. Total operating income of the company decreased by 30.28% year-on-year to Rs. 2,205 Mn in FY22 from Rs. 3,163 Mn in FY21, mainly due to lower trading sales amid declining demand coupled with a relatively higher base of FY21. During FY21, the sudden spike in TOI was majorly due to increased trading of various commodities. However, during FY22, the company shifted focus towards manufacturing activities from the relatively less profitable trading business. Hence, despite increasing input prices and lower income,

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

the company's PBILDT margin remained steady rate of around 11.32% in FY22 (FY21: 11.53%). However, PAT margin of the company remained below 1% amid increasing finance cost owing to higher interest rates in the market. Consequently, gross cash accrual (GCA) of the company declined to Rs. 74 Mn in FY22 from Rs. 205 Mn in FY21. The firm's ability to achieve sustained growth in operations with a stable margin profile will remain critical from credit perspective.

Working capital intensive nature of operation

MWCI's operations are working capital intensive in nature marked by high inventory holding and elongated collection period. The company is involved in manufacturing wide range of wires and cables and pipes and fittings by majorly importing raw materials. Furthermore, MWCI 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, which led to average inventory holding of around 155 days during FY22. Similarly, being a competitive business, the company has to extend credit to its customers (mainly distributors) and the average collection period stood around 156 days during FY22 and the average payable period was 81 days. Consequently, the operating cycle of MWCI stood high at 230 days in FY22 (PY: 131 days) mainly on account of increase in debtor's outstanding and average inventory holding period. Due to high operating cycle, the average fund based working capital utilization remains high at around 95% during last twelve-months period ended mid-February, 2023. An elongated working capital cycle puts added financial burden on the firm, which remains a challenge given the limited gearing headroom.

Raw material price volatility risk and foreign exchange fluctuation risk

MWCI's major raw materials include aluminium rod, copper rod, steel wire, PVC and XLPE compounds which are imported from India, Japan, Taiwan, and other countries. Raw material constituted more than 80% of the total cost of production for the last two years (FY21 and FY22). 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. Therefore, the company's profitability margins are exposed to volatility in raw material prices. 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. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be crucial from its profitability perspective.

Presence in highly competitive nature of industry

The products dealt by the company is intensely competitive with 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 do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of cables, wires and pipes, fittings, fans, etc. 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.

Exposure to volatile interest rate

Sustained requirement for short-term working capital borrowings has led to a high interest expense for MWCI (Rs.182 Mn during FY22) leading to direct impact in the company's net profitability. The company's interest rates are based on 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. A contractionary monetary policy for FY23 coupled with increasing inflation has 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 firm, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the firm from BFIs is subject to volatile interest rate.

Key Rating Strengths

Established track record of operations along with experienced promoter and management team in the related field

MWCI was established in 2010 and is owned by institutional promoters i.e. Arihant Auto Corrugation Pvt. Ltd., Arihant Industrial & Commercial Investment Ltd., Arihant Infrastructure Ltd., Arihant Chemicals & Adhesives Pvt. Ltd, etc. jointly owing 56.61% of the total capital of MWCI. Furthermore, the company is managed under the overall guidance of the Company's Board of Directors (BoD) who possesses wide experience in the related field. Mr. Girish Kumar Lunia, Managing Director, has been involved in different businesses from the last two decades and is supported by team of qualified and experienced professionals to run the day-to-day operations of MWCI.

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

MWCI produces wires and cables in various variants as per the demand in the market. ABC cables are used in overhead distribution and high voltage power transmission. House wiring cables, power cables, communication cable have various applications in the household, commercial buildings, hospitals and all types of industries. Similarly, paper insulated strips having thermal and electrical properties are used for winding coils of transformers and other electrical equipment.

Furthermore, the company is also engaged in manufacturing of different types of pipes and fittings like PVC/CPVC pipes, HDPE pipes under the brand name of "Jal". Moreover, MWCI is also involved in manufacturing of fans under the brand name of "Mahalaxmi fans" and also manufactures various motor parts. The wide application not only diffuses the risk of dependency on a single industry but also allows the company to cater to a larger market with a broad customer base. MWCI sells its product all over Nepal and the sales are mostly made via distributors. There are around 15 distributors throughout Nepal who in turn sell the products to various dealers.

Stable demand outlook for its products over the medium term

Notwithstanding the ongoing slowdown, Nepalese economy is in growing phase of investments in infrastructure, power and tourism sector among others. 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 for FY23, government has allocated funds for industrial infrastructure and railway construction and other civil structures as well as development of energy sector. Government commitment towards infrastructure and energy 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 is likely to also benefit cable and pipes manufacturers like MWCI given a stable demand outlook over the medium term.

About the Company

Mahalaxmi Wire and Cable Industries Private Limited (MWCI) was incorporated on December 20, 2010 and is involved in manufacturing of various wires and cables under the brand name of "Kantipur Cable", "Arihant Cable" and "Mahalaxmi Wires and Cables". Similarly, the company is also involved in manufacturing of pipes and fittings under the brand name of "Jal" and fans under the brand name of "Mahalaxmi fan". The manufacturing plant for all the product is located in Tankisinwari -06, Morang, Nepal.

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

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,353	3,163	2,205
PBILD Margin (%)	9.25	11.53	11.32
Overall Gearing (times)	4.64	4.36	4.09
Interest coverage (times)	1.61	2.82	1.37

Current Ratio (times)	1.07	1.04	1.09
Total Debt to Gross Cash Accruals (times)	35.12	10.76	29.04

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	538.40	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	740.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	900.00	CARE-NP A4 [A Four]
Total Facilities		2,178.40	

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