

## Exim Nepal Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	99.25	CARE-NP B+ [B Plus]	Reaffirmed
Short Term Bank Facilities	950.75	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,050.00</b> <b>(One billion Fifty Million Only)</b>		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned 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 continue to be constrained by its leveraged capital structure coupled with modest debt service coverage indicators, working capital intensive nature of business marked by elongated operating cycle at the end of FY22 (FY refers to twelve-month period ending mid-July). The ratings also factor in the product price volatility risk along 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 and long 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 will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

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

Capital structure of the company stood leveraged marked by overall gearing ratio of 3.66x at the end of FY22 (FY21:3.00x). Overall gearing remained high on account of high reliance on debt financing for meeting working capital needs. Total debt of the company increased by Rs. 176 Mn year-on-year to Rs. 825 Mn as on mid-July 2022 which included term loan of Rs. 239 Mn and working capital loan of Rs. 586 Mn. Consequently, debt service coverage ratio of the company stood modest with interest coverage ratio of 1.22x in FY22, which slightly improved from 1.09x in FY21. Total debt/GCA stood elevated at 67.31x in FY22 (FY21:166.04x) and TOL/TNW of the company increased to 6.07x (FY21:5.60x) at the end of the FY22. A limited gearing headroom limits the financial flexibility of the company and could constraint the company from raising additional debt, when required, in future.

#### Working capital intensive nature of business

The operation of the company is working capital intensive in nature leading to high net operating cycle of 368 days at the end of FY22. ENPL normally allows credit term of around three months and the average collection days stood high at 130 days at the end of FY22 although slightly improved from 150 days at the end of 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 inventory turnover days remained at higher side at 417 days at the end of FY22. ENPL's average creditor days also stood relatively high at 180 days in FY22. Nonetheless, net operating cycle remained substantially high leading to increased reliance of the company on bank finance to meet its working capital requirements.

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

**Product price volatility risk and foreign exchange fluctuation risk**

ENPL procures ductile iron (DI) pipes from India and China. The price of DI pipes is market linked, exposing ENPL to volatile input price risk. The cost of DI pipes constituted around 83% of the total operating income of the company during FY22. Thus, the volatility in prices of the same greatly impacts the profitability of the company. Furthermore, import of the product is mainly in USD, exposing ENPL to foreign exchange risk as well. The company's profitability hinges mainly on its ability to pass through changes in purchase prices to the customers in a timely manner.

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

The company receives majority of its work orders from government department related sanitation and water supply work. All contracts are tender based for which ENPL has to participate in the tenders, wherein the company has to quote the bid and hence it has to face the risk of successful bidding for the same, which again comes with the risk of quoting at low price through e-bidding to sustain the competition. ENPL also enters into construction contracts, mainly through JV entities in order to meet eligibility criteria for these contracts.

**Key Rating Strengths****Experienced management team with established track record of operations**

ENPL has been into trading of construction materials for more than two decades with trading arrangements with government as well as private entities. The company derives strength from its strong promoters belonging to Vaidya Group of Companies, which is involved in diversified businesses. The promoters of the company have experience over two decades in trading and construction business. ENPL operates under the overall guidance of its three-member Board of Directors (BoD). Mr. Kiran Baidhya, Chairman, has more than two decades of experience in automobile and electronics trading and construction sector. Mr. Karan Vaidya has more than a decade of experience in construction field and is also involved in trading and hospitality business. The board of directors of the company are further supported by experienced management team in the relevant field.

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

During FY22, the total operating income increased by ~38% year-on-year to Rs. 500 Mn mainly supported by increased demand for DI pipes including that from the national pride project of Melamchi Water Supply Development Board. PBILDT margin increased to ~19 % in FY22 from ~17% in FY21 amid increasing scale. Consequently, PAT margin of the company also increased to 1.78% in FY22 from 0.34% in FY21. TOI has declined slightly so far in FY23 with Rs. 250 Mn booked till 9MFY23 amid relatively sluggish demand scenario. The company's ability to sustain growth in the operations while maintaining the profit margins remains critical from credit perspective.

**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.

**Financial Performance:**

(Rs. Million)

For the Period Ended Mid-July	FY20	FY21	FY22
	(12m, A)	(12m, A)	(12m, A)
Income from Operations	267	363	505
PBILDT Margin (%)	27.02	16.83	19.21
Overall Gearing (times)	3.02	3.00	3.66
Interest Coverage (times)	1.16	1.09	1.22
Current Ratio (times)	1.16	0.59	0.58
Total Debt/ Gross Cash Accruals (times)	110.70	166.04	67.31

A: Audited

**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	99.25	CARE-NP B+
Short Term Bank Facilities	Working Capital Loans	899.25	CARE-NP A4
Short Term Bank Facilities	Letter of Credit/Bank Guarantee	51.50	CARE-NP A4
<b>Total</b>		<b>1,050.00</b>	

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