

Laxmi Aluminium Industries Private Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	341.80 (Decreased from 400.00)	CARE-NP B [Single B]	Reaffirmed
Short Term Bank Facilities	258.20 (Increased from 200.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	600.00 (Six Hundred Million Only)		

* Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of LAIPL continues to remain constrained by project implementation risk and operations stabilization risk thereafter associated with its under construction aluminium profile manufacturing facility. The ratings also factor in raw materials price volatility risk and working capital intensive nature of business and exposure to volatile interest rate. The ratings, however, derive 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 further time or cost overrun will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk and Stabilization Risk

LAIPL is setting up a manufacturing facility of aluminium profile at an estimated cost of Rs. 466 Mn which was proposed to be funded through debt of Rs. 342 Mn and equity of Rs. 124 Mn (debt to equity ratio of 73:27). As on mid-April 2023, financial progress was around 99% of the estimated cost. The project is expected to be completed by July end 2023. Since the company is yet to start its operations, the company remains exposed to the risks associated with residual project implementation. Furthermore, the company also remains exposed to operations stabilization risk thereafter. Its ability to commence operations without further overrun and ramp up capacity as envisaged will remain key monitorable aspect.

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 customers and managing the foreign exchange fluctuation risks related to raw materials remain crucial from its profitability perspective.

Exposure to volatile interest rate

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

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

institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

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 be required 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.

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 more than a decade of experience in manufacturing and trading sector. The promoters of the company also have an established trading business for aluminium profiles, namely Laxmi Aluminium 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

The company 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 procurement for 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.

Stable demand outlook of aluminium products in the country over the medium term

Nepalese economy is developing and growing, and is in phase of development of infrastructure sectors, notwithstanding the recent slowdown. 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

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	341.80	CARE-NP B
Short Term Bank Facilities	Fund Based Limits	20.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	238.20	CARE-NP A4
Total		600.00	

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