PRESS RELEASE

BRAJESHWORI INDUSTRIES PRIVATE LIMITED
February 2023

Ratings

Instruments/ Facilities	**Amount (NPR. Mn)**	**Rating**	**Rating Action**
Long Term Bank Facilities	454.132	IRN BB-	Assigned
Short Term Bank Facilities	155.00	IRN A4	Assigned
Total	**609.132**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 454.132 Mn and the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 155.00 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Brajeshwori Industries Private Limited (BIPL) derives comfort from its experienced promoter/ group- "Brajeshwori Group" having presence in industry for more than two decades through its trading units. The ratings also take comfort from the pre-established distribution and marketing network of more than hundreds dealer base all over Nepal, presence of contract manufacturing and packaging agreement with foreign clients and growing demand in the baby diapers segment. These rating strengths are partially offset by the risk of stabilization of operation given the competition induced pricing pressure, leverage capital structure, susceptibility to risk of volatility in input cost & in realization, supplier's concentration risk and foreign exchange risk. Hence, the ability of the company to scale up its operation while improving its capacity utilization and managing its raw material price fluctuation remains crucial. Also, the company's ability to strengthen its capitalization and coverage indicators also remains to be seen.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter; Operational synergies arising out of being part of Brajeshwori Group

BIPL is a part of the Brajeshwori group having more than two decades of presence especially in import and trade segment and also in financial service segment through its co-operative unit. The group's trading unit, Brajeshwori trading has primarily been in the business of trading of electronic goods, home appliances since many decades. Additionally, Brajeshwori Overseas Private Ltd and Brajeshwori International Private Ltd are also a trading units with sole import and distributorship of "Dulux Paints", and FMCG products like "Pril", "Ujala", "Henko" "MR White" among others. Expertise of promoters, their strong understanding of market dynamics and healthy relationship with the suppliers as well as customers is further expected to support the existing distribution network and credit risk profile of the company.

Established marketing & distribution network

BIPL has completed setting up its manufacturing unit and is already in operation with a reported sales revenue of NPR ~85 Mn in FY22, first year of operation. BIPL's pre-established network (*promoter's network created as a part of their trading business*) of more than 100+ distributors, contract manufacturing and packaging agreement with foreign clients and presence of its own brand name "Nyano" and "Tender Touch" in baby pull up diaper segment, should continue to support the business risk profile going forward.

Growing demand in baby diaper segment

The demand prospect of baby diaper industry is growing and dependent on several factors, such as population growth, urbanization, an increase in disposable income and many more. Also, baby diapers are considered to a convenient and hygienic option especially to all the working parents and guardians. With this, the baby diapers market globally is expected to continue growing in the coming years. Also, a considerable volume of baby diapers is being imported in Nepal, providing an advantageous climate for manufacturers like BIPL, as demand is higher than the domestic supply with high duty protection to the local manufacturers.

Key Rating Weaknesses

Limited track record of operations
BIPL is a new entrant in the baby diaper industry with a limited operational track record of less than a year. The reported sales in FY22 was ~NPR 85 Mn, in which it was in operation for ~10 months, which has improved to ~NPR 190 Mn in 6MFY23. The overall gearing and capitalization ratio remains on higher side given its high debt funded capex of ~NPR 344 Mn in a debt equity ratio of ~80:20. Nonetheless, these ratios remained supported by continuous equity infusion by the promoters and are expected to normalize with the stabilization of operation going forward.

Exposure to supplier concentration risk and forex risk
Company procures/imports majority of its products from the same group of suppliers, exposing the company to supplier concentration risk, as reflected in the top 10 supplier's concentration of ~100% as of mid- July 2022. Any supply constrains from these suppliers and change in terms of supply can restrain business risk profile. However, this is partially mitigated by long standing relationship and availability of alternative suppliers. Also, for the company like BIPL, which are dependent on the imports and suppliers across the world, are highly exposed to the risk arising from the volatility in the foreign exchange market.

Increased competitive risk
With fewer manufacturers in baby diaper industry compared to traders, they may face an increased competition from traders. This would result in less control over pricing with increased struggle towards product differentiation among competitors. Additionally, this would result in less bargaining power thereby exposing the players like BIPL to an uncertain competitive risk. Nonetheless, presence of duty protection to the local manufacturers and contract manufacturing agreement with the customers should provide comfort to some extent.

Analytical Approach: Standalone

Applicable Criteria:
[Corporate Credit Rating Methodology]

About the Company:
Brajeshwori Industries Private Limited was incorporated in June 2018 with the purpose of manufacturing baby pull up diapers. BIPL's registered office is at Subidhanagar, Kathmandu while its manufacturing plant is located at Ramgram of Nawalparasi district with an installed capacity of 480 ppm (pcs per minute). BIPL is a family owned business belonging to Brajeshwori Group, where Mr. Satrughan Prasad Dhakal is the chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY22
	Audited
Total Operating Income (in NPR Mn.)	85
EBITDA Margin (%)	1.11

Interest Coverage Ratio (x)	0.03
Current Ratio (x)	1.96
Overall Gearing Ratio (x)	2.49

** Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	254.132	IRN BB-
Fund/ Non Fund Based Bank Facilities- Working Capital Loan	Long /Short Term	355.00*	IRN BB-/A4
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	(200.00)	IRN BB-
Fund Based Bank Facilities- Working Capital Loan*	Short Term	(105.00)	IRN A4
Non Fund Based Bank Facilities- LC & BG[1]	Short Term	(150.00)	IRN A4
Total Facilities		**609.132**	

**The combined limit for both funded and non-funded working capital shall not exceed maximum limit of NPR 355 Mn.*

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About Infomerics Credit Rating Nepal Limited:
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[1] Letter of Credit (LC) & Bank Guarantee (BG)

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