

## PRESS RELEASE

### GYAN ENTERPRISES

November 2024

#### Ratings

Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	642.47 (Enhanced from 207.00)	IRN BB	Reaffirmed and removed from "Issuer Not Cooperating" category
Short Term Bank Facilities	2,342.00 (Reduced from 2,720.00)	IRN A4	Reaffirmed and removed from "Issuer Not Cooperating" category
<b>Total</b>	<b>2,984.47</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN BB (Double B) assigned to the long term bank facilities of NPR 642.47 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 2,342.00 Mn. Also, the ratings have been removed from Issuer Not Cooperating category.

#### Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Gyan Enterprises (GYAN) derive strength from parentage of experienced promoter group "KL Dugar" coupled with an established and long track record of operations supported by proficient management team. Furthermore, the ratings also factor, product diversification with established brand in domestic market, proximity to Indian border and established marketing setup.

These rating strengths are partially offset by moderate financial profile characterized by decline in total operating income and profitability, commodity price fluctuation risk, foreign exchange fluctuation risk, leveraged capital structure coupled with elongated working capital cycle and high supplier concentration risk. Going forward, the ability of the company to manage growth in the operations and maintain its profit margins with prudent working capital management will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

#### Established and long track record of operation with experienced promoters and management personnel

GYAN has been in operation for more than three decades in import/trading of various items/brands from food products to hardware and paper products. Further, GYAN is a part of KL Dugar Group having strong presence in Nepal through their group entities in various industries like food grain, trading, hydropower, cement, construction and banking & finance. Mr. Naresh Dugar, Partner has over 27 years of experience in trade and industry. He also holds directorship in various other group companies.

#### Strategic location for imports

The corporate site is in Biratnagar, Morang around 8.8 Kms from Indo-Nepal borders ICP Jogbani and nearby its domestic suppliers. Since majority of the raw materials requirements of GYAN are imported from India-Nepal borders, the site's proximity to the border remains a positive point leading to savings in freight cost.

#### Product diversification with established brand in domestic market

The firm sells various international brands in domestic market. GYAN is the sole authorized distributorship of Atlantic (Welding Electrode), Meizan (Edible Oils in Consumer Packs) and Medalia (Bakery Shortening) in the domestic market. The firm's well-established brand maintains consistent demand and aids in product differentiation from competitors. This has helped to reduce the impact of price volatility brought on by competition over the years. This also provides leverage to the firm

in front of new players entering the industry.

## Key Rating Weaknesses

### **Moderate financial profile characterized by decline in sales and profitability**

GYAN generates its revenue from sale of 64 different items mostly imported from different countries. However, top 10 products covered 77% of total sales in FY24. The company reported a Total Operating Income (TOI) of NPR 2,242 Mn in FY24, a decline from NPR 2,412 Mn in FY23 and NPR 3,173 Mn in FY22. The contraction in TOI over the years can be attributed to reduced average realizations due to heightened market competition, along with a decrease in sales volume. Despite the revenue decline, the EBITDA margin remained relatively stable at 8.03% in FY24, compared to 8.23% in FY23, and showed improvement from 5.25% in FY22. The margin resilience was mainly due to lower selling and distribution expenses. PAT margin was marginally positive at 0.17% in FY24, up from Nil in FY23 but still lower than the 1.50% recorded in FY22. This decrease in profitability was influenced by increased average interest rates, which elevated finance costs associated with higher working capital loans. Gross Cash Accruals (GCA) also saw variations, with NPR 15 Mn in FY24, an increase from NPR 13 Mn in FY23, though significantly lower than NPR 55 Mn in FY22. The ability of GYAN to manage growth in the operations while maintaining the profit margins would be the key rating sensitivities.

### **Leveraged capital structure and weak debt service coverage indicators of the firm**

Overall gearing ratio of the firm was high at 9.00x as on mid-July 2024 which deteriorated from 7.82x as on mid-July 2023 mainly due to increase in working capital loan. However, networth of the firm slightly improved in FY24 upon plough back of profit into the business. Also, the interest coverage ratio of the firm remained at lower side of 0.94x in FY24. Furthermore, the total debt/Gross Cash Accruals also remained high at 137.25x in FY24. The ability of the entity to rationalize its debt through efficient working capital management would be key rating sensitivities.

### **Working capital intensive nature of business**

The operations of the firm are working capital intensive in nature. GYAN is involved in trading of different types of products by procuring goods both locally and by importing from different countries. Majority of goods are imported which are procured through LC at sight or LC usance. Average inventory days was 205 days in FY24 which increased from 186 days in F23 due to slow movement trading goods on account of lower market demand. Average debtors turnover days was 76 days in FY24 which slightly increased from 70 days in FY23 due to higher credit period provided to customers to sustain in higher competitive market. Total operating cycle of the firm remained high at 280 days in FY24. This had led to high reliance of the firm on the bank finance for working capital needs. Working capital intensity of the company stands at 84% in FY24 which was increased from 67% in FY23 mainly due to decline in TOI.

### **Commodity price fluctuation risk and foreign exchange fluctuation risk**

Since GYAN is engaged mostly in sale of agro products, the company is exposed to agro-climatic conditions risks. To mitigate the commodity risk, the company stocks the goods as per the market demand. However, GYAN continues to be susceptible to changes in government policies on international trade like minimum support price, restriction on exports etc. The operations of the company are primarily import oriented with approximately 98% of the total purchase constituting imports in FY24. GYAN imports from more than 10 countries across Asia, Europe, America. In order to mitigate the risks associated with changes in foreign currency rates, the company hedge its foreign currency risks after analysing cost benefit. The company reported loss due to foreign currency fluctuation to the tune of NPR 36 Mn in FY23 and NPR 3 Mn in FY24.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

### **Past Rating Rationale:**

[Bank Facilities Rating Revised and moved to Issuer Not Cooperating category with notice of withdrawal](#)  
[Fresh bank loan rating assigned on December 2022](#)

## About the Company:

Incorporated in February 1991, Gyan Enterprises (GYAN) is a partnership firm established with an objective of importing/trading of various products/brands. The firm's registered office is located at Biratnagar-8, Morang, Nepal. GYAN is the sole authorized distributor of Atlantic (Welding Electrode), Meizan (Edible Oils in Consumer Packs) and Medalia (Bakery Shortening) in the domestic market. GYAN is a part of KL Dugar Group with two partners Mr. Naresh Dugar and Mr. Kumud Dugar.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	2,437	3,175	2,415	2,242
EBITDA Margin (%)	4.47	5.25	8.23	8.03
Interest Coverage Ratio (x)	1.24	1.57	1.27	0.94
Current Ratio (x)	1.25	1.11	1.25	1.31
Overall Gearing Ratio (x)	6.17	5.46	7.82	9.00
TOL/TNW (x)	9.07	8.40	9.67	10.33

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

*Total Outside Liabilities/Tangible Net Worth (TOL/TNW)*

*\*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 (TL)	Long Term	642.47	IRN BB
Fund Based Bank Facilities-Working Capital	Short Term	372.00	IRN A4
Non Fund Based Bank Facilities-LC/BG	Short Term	1,970.00	IRN A4
<b>Total Facilities</b>		<b>2,984.47</b>	

## Analyst Contacts

### Mr. Saphal Maharjan

Tel No.+977-1-4583304/4585906

[saphal.maharjan@infomericsnepal.com](mailto:saphal.maharjan@infomericsnepal.com)

### Mr. Atish Ratna Shakya

Tel No.+977-1-4583304/4585906

[atish.shakya@infomericsnepal.com](mailto:atish.shakya@infomericsnepal.com)

## Relationship Contact

### Mr. Rabin Pudasaini

Tel No.+977-1-4583304/4585906

[rabin.pudasaini@infomericsnepal.com](mailto:rabin.pudasaini@infomericsnepal.com)

## About Infomerics Credit Rating Nepal Limited:

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# Infomerics Credit Rating Nepal Limited

## **Infomerics Credit Rating Nepal Limited**

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: [info@infomericsnepal.com](mailto:info@infomericsnepal.com)

Web: [www.infomericsnepal.com](http://www.infomericsnepal.com)

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