

**Rating Rationale**  
**Triveni Spinning Mills Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	402.46	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	2,030.00	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Bank Facilities</b>	<b>2,432.46</b>		

*Details of 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 Triveni Spinning Mills Private Limited (TSMPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of TSMPL are constrained by the expected impact of Covid-19 on the operations and financials of the company for FY20 (refers to 12 months period ended mid-July 2020), working capital intensive nature of operations, exposure to contingent liability from Nepal Electricity Authority (NEA) and raw material price volatility risk with susceptibility to adverse foreign exchange price movements as it is entirely dependent on imports for its raw materials. The ratings are further constrained by exposure to volatile interest rate and the business of the company exposed to global competition as exports constitute major part of the sales. The ratings however, derive strength from established track record of operations and experienced promoters in manufacturing industries, growth in revenue and profitability in FY19 (Audited, refers to 12 months period ended mid-July 2019) however with reduced PBILDT margins and comfortable debt service coverage indicators of the company at the end of FY19; albeit expected to be impacted significantly in FY20. The ratings also factor in established presence of the company in both domestic and export market, diversified product profile in synthetic yarn and support from domestic & foreign government stimulating export sales.

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 the key rating sensitivities. Also continuity of Generalized System of Preferences (GSP) facility that developed countries have been providing to Nepal on imports of yarn and satisfactory generation of export revenue will be the key rating sensitivity. Further, the impact of disputed contingent liability on the financials of the company would be critical.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Negative implications of COVID-19 on the operations and financials of the company***

The global outbreak of Coronavirus disease (COVID-19), has affected Nepal as well. With lockdown imposed by Government of Nepal, TSMPL had suspended all its manufacturing activities from March 24, 2020 to June

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

14, 2020. The company was able to make limited sales during the lockdown, which may have a negative impact on the revenue, profitability, cash flow and debt service indicators of the company. However, the Central Bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in Mid-April 2020 to provide temporary relief and has also directed banks and financial institutions to reduce interest rate on bank loans by 2% for the fourth quarter (mid-April to mid-July 2020) of FY2020. However, TSMPL has paid its debt repayments for quarter ending mid-April 2020 for which company has been eligible for 10% rebate on interest charged for the quarter.

***Working Capital Intensive Nature of Operations with high reliance on bank finance for funding***

The operations of the company are working capital intensive in nature as it is involved in manufacturing yarn by importing raw materials through Letter of Credit from different countries. The company has to maintain inventory for smooth operations and also extend credit to dealers which leads to an overall operating cycle of around 4.5-5 months due to which company has high reliance on bank finance for the working capital needs.

***Raw material price volatility risk and susceptibility to adverse foreign exchange price movements***

Raw materials needed for yarn spinning are staple fibres of different length and fineness which are not available in domestic market and are hence imported from countries like China, India, Singapore, Indonesia, South Korea and Thailand. Imported raw materials constitute around 100% of raw material consumption during yarn production and invoicing of the raw material is done in USD which exposes TSMPL to foreign exchange fluctuation risk. Also, majority of raw material price of the company is dependent on pricing of petrochemicals which are volatile in nature. Raw material cost continues to be the major cost component of TSMPL as raw material consumption cost constitutes around 70% of total cost of goods sold in FY19. Hence, any adverse movement in raw material price without any corresponding movement in finished goods price is expected to affect the profitability of the company. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks will be the key rating sensitivities.

***Exposed to global competition as major sales export oriented***

India and Turkey are the major export market for synthetic yarn manufactured by TSMPL and contributes nearly 80%-85% to total sales. Both India and Turkey are major export markets for most of the other countries which are more competitive in pricing thereby exposing TSMPL to domestic competition as well as competition from other countries. Also, the export sales of the company is concentrated as top 10 export customer base contribute more than 50% to the total sales. This exposes the company to losing a substantial customer base and revenue if TSMPL is not able to compete with other countries/local manufacturers.

***Exposed to contingent liability from Nepal Electricity Authority (NEA)***

During FY19, TSMPL had received demand notice from Nepal Electricity Authority (NEA) towards additional electricity charges as dedicated feeder charges for the period Aug 2016 to April 2018 amounting to Rs. 236 Mn. The matter was referred to the court, however recently the high court has referred back the matter to the Review

Committee under Nepal Electricity Distribution Regulation. Impact of this contingent liability on the books of the company if the same crystallizes will be a key rating sensitivity.

***Exposure to Volatile Interest Rate***

Nepalese banking sectors are fixing interest rate on lending based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is subject to volatile interest rate.

**Key Rating Strengths**

***Established track record of operations and experienced promoters in manufacturing industries***

TSMPL has an operational track record of more than 20 years in yarn manufacturing industry. The company derives strength from its strong promoter group belonging to the Sanghai family brothers. They are one of the largest business group of Nepal involved in diversified business of banking, insurance, manufacturing, trading and other businesses. The company is managed under the overall guidance of the Company's three member Board of Directors (BoD) who possesses wide experience in the related field. The company is chaired by Mr. Ramchandra Sanghai, who has more than 3 decades of experience in various group companies. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of TSMPL.

***Growth in revenue and profitability in FY19 however with reduced PBILDT margin; however revenue and profitability are likely to be significantly impacted during FY20 due to disruption caused by Covid-19 lockdown in Nepal and other countries***

Total revenue of the company reported a growth of 5.14% in FY19 majorly due to growth in quantity sold with average price realizations being at same level. Export sales majorly to India and Turkey contributed nearly 82% to the total sales in FY19. Export incentive received by the company increased in FY19 on account of change in export incentive policy of the Government of Nepal during the year. PBILDT margin reduced slightly in FY19 to 6.98% from 7.44% in FY18 majorly on account of increase in wages due to revision in minimum wages. During 11MFY20, the company reported relatively lower sales of Rs. 1,761 Mn out of which export sales accounted for 84% of total sales during the period. The revenue and profitability are likely to be significantly impacted during FY20 due to disruption caused by Covid-19 lockdown in Nepal and other countries.

***Comfortable debt service coverage indicators of the company at the end of FY19; albeit impacted significantly in FY20***

Debt-equity ratio of the company was low at 0.44x at the end of FY19 which improved from 0.58x at the end of FY18, on back of repayment of term loans and increase in net worth due to accretion of the profit to the networth. Overall gearing ratio of the company was moderate at 1.79x at the end of FY19 (FY18: 2.10x) with moderate interest coverage ratio of 2.92x in FY19 (FY18: 2.84x). Total debt/ GCA for FY18 was 7.99x which decreased to 7.01x in FY19 mainly due to reduction in debt as well as increment in gross cash accruals.

***Diversified product profile in synthetic yarn***

TSMPL is one of the prominent producers and exporters of polyester, viscose, acrylic yarns, melange and its blend in Nepal. Company produces a variety of synthetic yarns in a variety of blends and counts for all kinds of weaving and knitting needs. As the company is well equipped with advance and automatic machineries it is in a position to produce quality yarns which meet international standards.

***Support from the domestic government policies coupled with special status granted by Turkey stimulating export sales***

TSMPL’s revenue from export sales is supported by both domestic and foreign government policies. As per the new provision in FY19, Nepal government has announced cash incentives of three percent on yarn made out of polyester, viscose, acrylic and cotton in a bid to boost export earnings and manage increasing pressure on balance of payment. Also the new provision now provides incentives to goods exported even to India, whereas in the previous provision, the incentives were given only to goods exported to the third country. This increase in export incentive by the government is expected to further boost export sales of synthetic yarn from Nepal. However, any downward change in the incentive policy of the Government will have an impact on the profitability of the company. Further, Nepal has been enjoying Generalised System of Preferences (GSP) on export of Yarn to Turkey which provides an impetus to export to Turkey. Lifting of the special status granted by foreign countries especially by Turkey to Nepal may severely impact the sales as Nepali yarn will not be as competitive. Continuity of GSP facility that developed countries have been providing to Nepal on imports of yarn and satisfactory generation of export revenue will be the key rating sensitivity.

***About the Company***

Triveni Spinning Mills Private Limited (TSMPL) is a private limited company established in the year 1995 and is promoted by individuals belonging to the Sanghai Family of Nepal. The company is engaged in manufacturing Polyester, Viscose & Acrylic/Blended Yarns in Chatapipra, Bara, Nepal. Currently the total installed capacity of the company is 14,689 MT per year.

***Brief Financial Performance during the last 3 years is as follows:***

(Rs. In Million)

<b>For the year ended Mid July</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>	<b>FY19 (A)*</b>
Income from Operations	2,352	2,859	3,006
PBILDT	194	213	210
PAT	83	43	62
Overall Gearing (times)	2.00	2.10	1.79
Interest coverage (times)	3.50	2.84	2.92

\*Audited

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**Annexure 1: Details of the Facilities rated**

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	402.46	<b>CARE-NP BB+</b>
Short Term Bank Facilities	Working Capital Loan	950.00	<b>CARE-NP A4+</b>
Short Term Bank Facilities	Non-fund based limits	1,080.00	<b>CARE-NP A4+</b>
<b>Total</b>		<b>2,432.46</b>	