

Panchakanya Rotomould Private Limited

Rating

Instrument / Facilities*	Amount (Rs. in Mn)	Rating ¹	Rating Action
Short-term Bank Facilities	861.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	861.00 (Eight hundred Sixty-one Million)		

*Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP A4' to the short-term bank facilities of Panchakanya Rotomould Private Limited (PRPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PRPL is constrained by fluctuating scale of operations with leveraged capital structure, working capital intensive nature of operations and raw material price volatility. The rating also factors in susceptibility to volatile interest rate and presence in highly competitive nature of industry.

The rating, however, derives strength from established track record of operations with experienced promoters and management team, established brand with country wide market presence, moderate profitability margins and positive industry outlook in the country.

Going forward, the ability of the company to profitably scale up its operations and managing the working capital requirements while limiting its borrowings will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Constraints

Fluctuating scale of operations with leveraged capital structure and modest debt service coverage indicators

Company's total operating income (TOI) has been fluctuating over the past three financial years (FY18-FY20, FY refers to 12 months' period ended in mid-July). TOI has registered a growth in FY19 and a decline in FY20. PRPL reported decrease in revenue by ~15% during FY20 vis-à-vis FY19 majorly due to decrease in quantity sold impacted by Covid-19 induced demand slowdown. In FY21, the company has reported the total sales of Rs. 881 Mn, a growth of ~89% over FY20. The significant increase in TOI was on account of increase in product profile along with the recovery of demand during the period.

The company has leveraged capital structure on account of high dependence on external borrowings to meet its working capital requirements. Total debt has been increasing on y-o-y basis in the last 3 balance sheet dates (FY18-FY20) backed by low profit accretion and net worth base which has resulted into high overall gearing levels during the said period. As on mid-July 2020, the overall gearing stood high at 3.62x.

Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios for the company stood modest at 45.55 times and 1.11 times for FY20 respectively (FY19: 58.67x and 1.08x respectively).

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Working capital intensive nature of operations

The company has working capital intensive nature of operations as reflected from stressed liquidity ratios. Current ratio of the company stood below 0.90x on last 2 balance sheet dates (FY19 & FY20) on account of high dependence on external borrowings to meet its working capital requirements. The company has high working capital intensity on account of high inventory holding. The main raw material of the company is plastic cubes, paints, iron/steel components and chemicals which company is mainly importing from India and due to high lead time, the company has to maintain the minimum levels of inventory for smooth running of its manufacturing operations. Furthermore, the company is having a large product portfolio (different shapes sizes, etc.) and being a manufacture has to keep stock inventory readily available to meet the immediate demand of its customers. All this led to high inventory levels and the average inventory holding stood at 125 days for FY20. Being a competitive business, the company has to extend credit to its customers (mainly dealers / distributors) and the average collection period stood around 125 days during FY20 and the average payable period is 97 days. All this resulted into high operating cycle and average working capital utilization was around 78% for the last 12 months ended mid-May, 2021

Exposure to raw material price volatility

Raw material constituted more than 75% of the total cost of production for the last 2 years (FY19 and FY20; FY refers to refers to 12 months' period ended in mid-July). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of the raw materials like plastic cubes etc., which is a crude oil derivative. Crude oil being a product of international importance, its price is very volatile depending on the demand-supply situation in the global markets. The general volatility in the crude oil prices also has an impact on the price of this product. Since, plastic cube constitutes a major component of the raw material and hence any volatility in their prices has a direct impact on the profitability margins of the company.

Presence in highly competitive nature of industry

The Plastic and Pipe industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low and pipes are regularly used in constructions, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of pipe products is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, the value addition in the pipe products is low, resulting into low product differentiation in the market. Hence, the producers of pipe products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the market prices.

Key Rating Strengths***Established track record of operation with experienced promoters***

PRPL derives strength from its strong promoter group belonging to Panchakanya Group. Panchakanya Group is one of the established business group having presence from 1970s in the market of Nepal and involved in diversified business of trading, automobiles, manufacturing and others. The company is managed under the overall guidance of its seven-member board of directors (BoDs) who possess wide experience in various industries and trading business. Mr. Prem Bahadur Shrestha, aged 89 years, is Director and Chairman of PRPL and is engaged in industry, import, export, and

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service and commerce/business sector for more than 5 decades. The BoDs are further supported by an experienced team across various functions/ departments.

Established brand with country wide market presence

The company sells its products (pipes & fittings) under the brand name of 'Panchakanya' which is an established brand in the Nepal market on account of its long-standing presence in the construction industry. This provides leverage to the company in front of other players in the industry. Furthermore, PPL has established dealers/sub-dealers and depots across all major cities; which provides reach to end customers for its products

Moderate profitability

For the period FY18-FY20, PBILDT margin improved from 11.72% in FY18 to 15.41% in FY20 on account of change in product mix and steps taken by the management towards cost reduction. The company has large product portfolio having varied margins. Due to increase in share of higher margins products in the respective years, PBILDT margin of the company has shown improvement during the said period. Furthermore, the company added new products to its portfolio which has comparatively better profitability margins and the same also supported in improvement of profits.

Positive Industry Scenario

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. This indicates a growing demand for construction materials like pipes and fittings in Nepal.

About the Company

Panchakanya Rotomould Private Limited (PRPL) was established in 1989 and is engaged in manufacturing the unplasticized Polyvinyl Chloride (uPVC) and Polyvinyl Chloride (PVC) pipes and fittings in Nepal. It has a fully automated plant in Bhairahawa, Nepal with installed capacity of 5,000 Metric Tons per annum. The company is operating for more than three decades and is promoted by different individuals belonging to the Panchakanya group of companies.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	458	535	456
PBILDT Margin (%)	11.72	12.94	15.41
Overall Gearing Ratio (times)	2.84	3.73	3.62
Interest Coverage (times)	1.14	1.08	1.11
Current Ratio (times)	0.94	0.86	0.89
Total Debt/ Gross Cash Accruals (times)	33.84	58.67	45.55

A: Audited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Short Term Bank Facilities	Fund Based Limits	712.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	149.00	CARE-NP A4
Total		861.00	

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