

Hanumanta Poly Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	220.72	CARE-NP BB- [Double B minus]	Assigned
Short Term Bank Facilities	329.28	CARE-NP A4 [A Four]	Assigned
Total Facilities	550.00 (Five hundred Fifty Million Only)		

Details of instruments/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 Hanumanta Poly Industries Private Limited (HPIPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HPIPL are constrained by its leveraged capital structure with modest debt service coverage indicators and working capital intensive nature of operations leading to higher reliance on borrowings. The ratings also factor in HPIPL's presence in highly competitive industry and exposure to raw material price volatility risk coupled with foreign currency exchange and interest rate fluctuation risk.

The ratings, however, derives strength from HPIPL being part of the Hanumanta group of Industries, with the promoters having over a decade of experience in both the trading and manufacturing industry. The ratings also factor in HPIPL's growing scale of operations, reasonably varied product portfolio with growing market presence and locational advantage of its facilities.

Going forward, the ability of HPIPL to profitably scale up the operations along with improvement in working capital cycle management leading to rationalization of debt and improvement in capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly Leveraged capital structure with modest debt service coverage indicators

Overall gearing ratio of HPIPL was high at around 6.05 times as on July 15, 2021 mainly because of higher levels of working capital borrowings during FY21 (FY refers to the 12-month period ended mid-July). The company's total debt increased to Rs. 442 Mn at the end of FY21 as compared to Rs. 244 Mn at the end of FY20 led mainly by increase in working capital loans to Rs. 275 Mn in FY21 from Rs. 138 Mn in FY20 on account of the growing operations. Advances from Directors of Rs. 40 Mn during FY21 to fund the capex also added to the increase in total debt.

Interest coverage improved to 2.23x during FY21 from 1.53x in FY20 aided by higher PBILDT generation amid higher sales. Total debt/ GCA stood high at 12.49x in FY21 although improved from 14.65x at the end of FY20 due to higher gross cash accruals during the year. Overall, the amount of debt remains high, commensurate to the operations, resulting in elevated overall gearing levels at the end of FY21.

Elongated operating cycle with working capital-intensive nature of operations

HPIPL's operations are working capital intensive marked by higher collection period and inventory holding coupled with lower average creditors. HPIPL's average collection period increased to 124 days in FY21 from 109 days in FY20, impacted mainly by higher sales in the final quarter of FY21. Furthermore, the company keeps high inventory levels with bulk import of its raw materials. Inventory holding period was high around 308 days for FY20 which then decreased slightly to 290 days for FY21. Further, the payment to suppliers is made through Letter of Credit (LC) at sight in case of import purchases

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

and in case of local purchases, HPIPL usually gets 60 days' credit period to settle the payment due. Consequently, HPIPL's total operating cycle was highly stretched at 288 days at the end of FY21, improving slightly from 321 days at the end of FY20. A highly elongated operating cycle leads to high reliance of the company on the bank finance for working capital requirements. The average utilization of the fund-based working capital limits against drawing power was around 87% during the twelve months period ended mid-January 2022.

Exposure to Raw material price volatility risk and foreign currency fluctuation risk

The prices of the HPIPL's raw materials 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 raw materials used in the manufacturing of mattress and foam, such as polyethylene plastic cube, latex sheet, yarn and chemical mixes account for around 64% of the total cost of goods sold for the company. The prices of these raw materials are linked to the prices of petroleum products in international market. These raw materials are majorly imported from India, Turkey, Saudi Arab, China and Bangladesh and payments to suppliers, except for procurement from India, are settled using foreign currency letter of credit at sight. The company does not hedge its foreign currency exposure, thus exposing itself to foreign currency fluctuation risk. The ability of the company to pass through changes in raw material prices to the customers and limiting its foreign currency risk will be the key rating sensitivities.

Highly competitive industry with fragmented market

The mattresses and foams industry in Nepal is intensely competitive and fragmented marked by the presence of numerous big and small players in the unorganized segment. Given the relatively low entry barriers to the industry, in terms of capital and technology requirements with limited product differentiation, this industry is characterized by players in having low pricing power which is often exacerbated by competition-induced pressures on profitability. Furthermore, in order to push sales to sustain the competition credit sales in the market has substantially increased leading to increased debtor days and high working capital requirement. The producers of carpet products are essentially price-takers in the market, which directly expose their cash flows and profitability.

Interest rate risk

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

Key Rating Strengths

Synergies from being part of the Hanumanta group of Industries and promoters having prior experience in related industry

HPIPL is one of the six companies under the Hanumanta group of companies involved in manufacturing and trading of various home décor products. With the group operating in the similar line of business in the Nepalese market, it gives HPIPL an advantage of additional distribution channel for marketing of its goods and opportunities for cross-selling. Furthermore, HPIPL is promoted by Mr. Manish Agarwal, chairman, with over 12 years of experience in the trading and manufacturing business. Similarly, Mr. Anil Kumar Agarwal, director, has over 10 years of experience in the related industry.

Wide range of product portfolio with growing market presence

The company's product categories like Polyethylene (PE) rolls, PE sheets, Mattress, Polyurethane Foam, Fiber pillow, rebonded block and Polyester Staple Fiber among others. This reasonably varied product portfolio helps boost the

company's business prospects as a sluggish demand on one category can sometimes be offset by increased demand for any of the other products. Furthermore, with a wide range of products, the company can also exploit increased opportunities of cross selling to its clients. HPIPL has a growing presence in the country and sells its product all over Nepal. Currently, HPIPL has five main dealers and around 15 sub-dealers across all major cities of the country.

Growing scale of operations and moderate operating margins

Since its inception in August 2017, the company's revenue has grown with compounded annual growth rate (CAGR) of around 42% over FY18-FY21. HPIPL's revenue increased by 64% over FY20 to Rs. 376 Mn in FY21 aided by addition of two new dealers coupled with implementation of commission-based incentives to the dealers. Furthermore, the growth in revenue is attributable to both higher quantities sold as well as improved average price realization. Despite the increased sales the company's profitability remained muted majorly on account of greater increase in raw material price. Although the company's average price realization increased to around Rs. 458 per square meter during FY21 from around Rs. 385 per square meter during FY20, its PBILDT margin declined to 17.32% in FY21 from 18.98% in FY20 as the company was not able to fully pass on the increase in raw material prices to its customers. Higher turnover helped HPIPL report net profits of Rs. 21 Mn during FY21 as compared to Rs. 3 Mn during FY20. Revenue growth trend has continued in H1FY22 with the company reporting total sales of Rs. 275 Mn during the period.

About the Company

HPIPL is a private company established on February 1, 2015 and is engaged in manufacturing and trading of different types of home décor products. HPIPL has a manufacturing plant located in Sonapur, Sunsari, Nepal which came into operation since August 2017. HPIPL is an ISO 9001:2008 certified company and is a part of the Hanumanta Group of Industries, which is mainly involved in home décor furnishing. The company sells its products under the main brand name of 'Hanumanta' and also has various product specific sub-brands like Delight, Featherbeds, Chirag, Sure Sleep, Rolled Series and Pillow Top Series.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2020	2021
	(12m, A)	(12m, A)
Income from Operations	229	376
PBILDT Margin (%)	18.98	17.32
Overall Gearing (times)	4.67	6.05
Interest Coverage (times)	1.53	2.23
Total Debt/ Gross Cash Accruals (times)	14.65	12.49

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan/Hire Purchase Facility	220.72	CARE-NP BB- [Double B minus]
Short Term Bank Facilities	Fund Based Limits	329.28	CARE-NP A4 [A Four]

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Total		550.00	

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About CARE Ratings Nepal Limited:

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