

Godawari Polysacs and FIBC Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	254.62 (Increased from 174.41)	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	400.00 (Decreased from 425.59)	CARE-NP A4 [A four]	Reaffirmed
Total Facilities	654.62 (Six Hundred Fifty Four Million and Six Hundred Twenty Thousand Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Godawari Polysacks and FIBC Private Limited (GPFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GPFPL remain constrained by its short track record of operations and highly leveraged capital structure with modest profitability leading to weak debt service coverage indicators of the company. The ratings also factor in working capital intensive nature of operations, raw material price volatility risk, susceptibility to volatile interest rates and its presence in highly competitive industry.

The ratings, however, continue to derive strength from the company being a part of an established business group having presence in diversified sectors, experienced promoters, established brand with countrywide presence and locational advantage for procurement of raw materials and selling its products.

Going forward, the ability of the company to profitably scale up its operations and rationalization of its debt through efficient working capital management leading to improvement in solvency indicators would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record and modest financial profile

GPFPL started its commercial operations in February 2019 and has less than four years of track record of operations. During FY22 (Unaudited, FY refers to the twelve-month period ending mid-July), the total operating income of the company stood stable at Rs. 639 Mn compared to Rs. 634 Mn in FY21 (Audited). PBILDT margin, however, declined by 149 basis points and stood at 11.00% for FY22. Due to competitive pressures in the industry, the company did not increase its prices in tandem with the increased cost of production and settled for little margin. Furthermore, the increasing interest burden owing to high dependence on external borrowings restricted the net profitability of the company with PAT margin at around 0.31% for FY22 (FY21: 0.29%).

Highly leveraged capital structure with weak debt service coverage indicators

GPFPL's capital structure stood leveraged on account of high dependence on external borrowings (mainly working capital loans). Overall gearing remained high at 3.22x at the end of FY22, albeit improved from 4.73x at the end of FY21 aided by addition of equity share capital worth Rs. 60 Mn offsetting the increase in total debt outstanding of the company. Total debt to GCA, however, deteriorated to 23.80x in FY22 from 12.62x in FY21 due to increase in bank borrowings coupled

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

with lower gross cash accruals. Interest coverage ratio stood low at 1.48x in FY22 (FY21: 1.97x) amid increase in interest expenses coupled with lower gross profit.

Furthermore, GPFPL is also undergoing capex program to increase its installed capacity to 6,000 MT per annum from existing 4,800 MT per annum, which is proposed to be funded in debt to equity ratio of ~70:30. However, the final cost of the project is not finalized yet and the debt is yet to be fully tied up. Attributed to the same, the capital structure of the company is expected to remain leveraged over the near term with low gearing headroom.

Elongated operating cycle with working capital intensive nature of operations

The operations of the company are highly working capital intensive marked by an average operating cycle of approximately 188 days for FY22, primarily on account of the high inventory holding and credit period allowed to its customers. GPFPL is involved in manufacturing of tarpaulin and polysack products and the purchases of major raw materials are in the form of imports. Therefore, GPFPL requires to maintain the adequate level of inventory for smooth manufacturing operations and supply schedules. The combination of all these factors led to high reliance of the company on the bank finance for working capital needs. The average quarterly utilization of fund-based working capital limit against drawing power was over 90% during last twelve months ended mid-November, 2022.

Exposure to raw material price volatility

Raw materials constituted more than 78% of the total cost of production for the last two years ended on mid-July 2022. The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of polyethylene fabrics/pellets/granules which are crude oil derivatives. The general volatility in the crude oil prices also has an impact on the price of this product. Any sudden spurt in these raw material prices might not be passed on to the end customers instantly on account of highly competitive nature of the industry, which could lead to decline in profitability margins.

Presence in highly competitive nature of industry

The polymer industry is intensely competitive and fragmented, marked by the presence of numerous players in the unorganized segment. Given the fact that the entry barriers to the industry are low in terms of capital and technology requirements and limited product differentiation, the industry players do not have pricing power and are exposed to competition-induced pressures on profitability. The producers of polymer products are essentially price-takers in the market, which directly expose their cash flows and profitability.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates, which is also evident in the recent rate hike taken by BFIs in October 2022. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rates.

Key Rating Strengths

Established business group and experienced promoter in both the trading and manufacturing industry

GPFPL is promoted and managed by Mr. Munna Prasad Senuriya Baniya, who is associated with Godawari Business Organization (GBO) as an Executive Chairman of the Group. GBO is an ancestral business of the promoters and was established in 1950. The group has been involved in manufacturing of TMT & plain Steel bars, HDPE pipes, transformers and trading and supply of construction materials, hardware items and electronics through different group companies under GBO. Since the group is operating in the similar line of business in the Nepalese market for decades, it gives an advantage of existing distribution channel for marketing of manufactured goods from GPFPL.

Established brand with country wide market presence

The company sells tarpaulin products and polysack bags products under the brand name of "Godawari" which is an established brand in the Nepalese market on account of its long-standing and diversified presence in the Nepalese market. This provides competitive advantage to the company against new players entering the industry. Further, GPFPL has a customer base more than 200 dealers/sub-dealers across all major cities and three main depots in Lalitpur, Hetauda and Rautahat, which provides a ready market for its products.

Locational advantages for procurement of raw materials and selling its products

GPFPL's manufacturing facility is situated in Hetauda, Makawanpur. Hetauda city is one of the fastest growing cities of Nepal with close proximity with the three major cities of Nepal namely Kathmandu, Chitwan and Birgunj. As majority of raw materials are imported from India, the company has an advantage of being near to border region. The company imports its raw materials from Birgunj custom port, one of the biggest and developed custom port of Nepal. Also, the company has been exporting to India, contributing around 10% to its TOI. This provides the company benefits in terms of reduction in procurement and logistics cost, thus improving the margins on its products sold, and also added avenue to grow its business via exports.

About the Company

Godawari Polysacks and Fibc Private Limited (GPFPL) was established in 2018 and is engaged in manufacturing of two main product segments i.e. Tarpaulin and Polysac bags. The manufacturing facility is located in Hetauda, Makawanpur, Nepal with current installed capacity of 4,800 Metric Tons per annum. The company has four main outlets in Nepal situated in Lalitpur, Hetauda and Rautahat.

Financial Performance

For the period ended	FY20 (Audited)	FY21 (Audited)	FY22 (Unaudited)
Total Operating Income	185	634	639
PBILDT Margin (%)	27.55	12.49	11.00
Overall Gearing Ratio (times)	3.49	4.93	3.34
Interest Coverage (times)	1.80	1.97	1.48
Current Ratio (times)	1.21	1.27	1.27
Total Debt/ Gross Cash Accruals (times)	15.10	12.62	23.80

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	254.62	CARE-NP B+
Short Term Bank Facilities	Fund Based Limit	20.00	CARE-NP A4
Short Term Bank Facilities	Non Fund Based Limit	380.00	CARE-NP A4
Total		654.62	

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