

## Hanumanta Rugs Private Limited

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	278.82 (decreased from 307.07)	CARE-NP B+ [Single B Plus]	Revised from CARE-NP B
Short Term Bank Facilities	342.93	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>621.75</b> <b>(Six Hundred Twenty One Million and Seven Hundred Fifty Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities of Hanumanta Rugs Private Limited (HRPL) to 'CARE-NP B+' from 'CARE-NP B' and has reaffirmed the rating of 'CARE-NP A4' assigned to the short term bank facilities of HRPL.

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of HRPL considers improving capital structure of the company with increasing scale of operations during FY22 (Audited; FY refers to the twelve-month period ending mid-July). The rating also takes cognizance of export prospects of the company which is likely to increase market presence of the company. However, the ratings continue to be constrained by HRPL's leveraged capital structure and moderate debt service coverage indicators, relatively short track record of operations and working capital intensive nature of the business resulting in an elongated operating cycle. The ratings also factor in exposure to foreign exchange fluctuation and raw material price volatility risk, fragmented and competitive nature of carpet industry and exposure to volatile interest rate. The ratings, however, continue to drive strengths from experienced promoters in similar business line, wide range of product portfolio and market presence, and locational advantages for procurement of raw materials and selling its products.

*Going forward, the ability of the company to manage growth in its operations while improving profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Leveraged capital structure and moderate debt service coverage indicators

The capital structure of the company stood leveraged with overall gearing ratio of 3.28x at the end of FY22; however, improved from 14.54x at the end of FY21. The improvement was on account of increased tangible net worth as a result of additional equity infusion. Despite improvement in overall gearing ratio, it still remains high on account of higher working capital utilization to cater growing operations. Interest coverage ratio of the company improved slightly to 2.65x during FY22 from 2.11x during FY21 on account of increase in PBILD which was partially offset by increased interest expenses. Furthermore, Total debt/ GCA improved to 7.69 in FY22 from 15.89x in FY21 on account of improved GCA.

##### Working capital intensive nature of business leading to elongated operating cycle

The operations of the company are working capital intensive in nature. HRPL is involved in manufacturing of different types of carpets by purchasing majority of its raw materials from India and third countries. The company needs to hold inventory for minimum of six months for smooth operations, depending on demand and market scenario. Inventory holding period

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

was high around 326 days in FY22, although improved from 474 days in FY21 as inventory bulked up by the company at the end of FY21 was majorly sold during initial month of FY22. HRPL generally allows credit period of upto 60 days to its dealers, while average collection period was 87 days in FY22 which improved from 215 days in FY21. Net operating cycle of the company was 357 days in FY22 which improved from 547 days in FY21 mainly due to improvement in collection period and inventory days. This led to high reliance of the company on the external borrowings for working capital requirements. The high working capital requirements were met largely through bank borrowings which resulted in average utilization of over 90% of its sanctioned working capital limits.

#### **Raw material price volatility risk and foreign exchange fluctuation risk**

The major raw materials of HRPL are monofilament yarn, woolen yarn, jute yarn, polyester yarn and polypropylene yarn which are majorly imported from India, Turkey, Bhutan and Bangladesh. The prices of these 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. Raw material cost contributed to around 65% of the total operating income during FY22 which was around 52% during FY21. Thus, any volatility in prices of the same impacts the profitability of the company. Furthermore, raw material requirements are met majorly through imports and the prices of the same are linked to USD (except import from India) for which the company is exposed to the foreign exchange fluctuation risk. HRPL incurred foreign exchange loss of Rs. 2 Mn during FY22. The ability of the company to pass through changes in raw material prices to its customers and managing the foreign exchange fluctuation risks related to raw materials will be crucial from its profitability perspective.

#### **Presence in fragmented and competitive nature of industry**

The carpet industry is intensely competitive in nature marked by the presence of numerous big and small 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 players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The producers of carpet products are essentially price-takers in the market, which directly impacts 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 few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. Any further significant rate hikes could put increased interest burden on the firm, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the firm from BFIs is subject to volatile interest rate.

#### **Key Rating Strengths**

##### **Experienced promoters in similar business line**

HRPL has been operating under the guidance of directors who possess wide industry experience. The company has four directors in its board chaired by Mr. Manish Agarwal, having experience of over thirteen years in manufacturing and trading businesses. Mr. Anil Kumar Agarwal, Director, has more than a decade of experience in the manufacturing and trading of

carpets. They are also involved in Hanumanta Group of Industries (HGI), which is dealing in similar line of businesses such as home décor and furnishing in the Nepalese market which is advantageous for the company. The BOD is aptly supported by an experienced team across various functions/departments.

### Growing scale of operations

HRPL derives its revenue from sale of designer carpet, woolen carpet, cotton carpet and other types of carpets. Total operating income (TOI) of the company increased by around 161% during FY22 to Rs. 365 Mn from Rs. 140 Mn during FY21. The increase in revenue is attributed to growth in quantities sold coupled with the increase in average price realization. The PBILDT margin remained satisfactory at 31% during FY22, although moderated as compared to 41.81% during FY21 on account of higher input prices. However, PAT margin increased to 9.67% in FY22 from 0.70% in FY21. In absolute amount, the company achieved net profit of Rs. 35 Mn during FY22, improved from Rs. 1 Mn during FY21. Similarly, Gross Cash accruals (GCA) increased to Rs. 65 Mn in FY22 from Rs. 31 Mn in FY21. Furthermore, during H1FY23 (Unaudited, refer to six-month period ended mid-Jan) the company booked total revenue of Rs. 142 Mn.

### Locational advantages and large product portfolio

HRPL's manufacturing facility is located in Sonapur, Sunsari, Nepal and lies adjacent to Biratnagar city, which is considered as a gateway to Indo-Nepal borders. Since the procurement of raw materials is mainly in the form of imports and routes through Indian ports, the factory's proximity to Indian border remains added advantage in terms of freight cost saving.

The company has a wide range of carpet products in terms of quality, thickness and other features targeted for different customer groups at various price points. HRPL sells its product all over Nepal through HGI's existing distribution channel. The company also started to export its products to India from mid-January 2023 thus providing assistance to increase its market presence in international market as well.

### About the Company

HRPL is a private limited company established in 2017 which is engaged in manufacturing of different types of rugs. The company's manufacturing facility is located in Sonapur, Sunsari, Nepal with two carpet loom machineries having combined installed capacity of 4,000 square meters per day. The company sells its products under the brand 'Hanumanta Rugs'.

Brief financial performance of HRPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	68	140	365
PBILDT Margin (%)	7.86	41.81	31.28
Overall Gearing (times)	Negative	14.54	3.28
Interest coverage (times)	0.19	2.11	2.65
Current Ratio (times)	0.77	1.03	1.17
Total Debt/Gross Cash Accruals (times)	Negative	15.89	7.69

A: Audited

### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	278.82	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund/Non-fund Based Limits	342.93	CARE-NP A4 [A Four]
<b>Total</b>		<b>621.75</b>	

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