

**Rating Rationale**  
**Galaxy Packaging Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	320.95	<b>CARE-NP BB- [Double B Minus]</b>	Assigned
Short Term Bank Facilities	579.05	<b>CARE-NP A4 [A Four]</b>	Assigned
<b>Total Facilities</b>	<b>900.00</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 Galaxy Packaging Private Limited (GPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of GPL are constrained by short track record of operations, leveraged capital structure and working capital intensive nature of business. The ratings are also constrained by raw material price volatility risk, foreign exchange fluctuation risk, project execution risk, GPL’s presence in highly competitive nature of industry and exposure to volatile interest rates.

The ratings, however, derive strength from experienced management team, locational advantage and reputed customer profile. The ratings also factor in growing scale of operations coupled with positive demand outlook for packaging materials in the country.

*Going forward, the ability of the company to profitably scale up its operations while rationalizing its debt through efficient working capital management will be the key rating sensitivities. Also, timely completion of the project within the time and cost estimates and satisfactory operations thereafter will be the key rating sensitivities.*

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Short track record of operations and leveraged capital structure***

The company started operations from January, 2019 and has only two years of track record with small scale of operations. Therefore, achieving the envisaged scale of business in the light of competitive nature of industry remains crucial for GPL. In the first full year of operations in FY20, the company has achieved total operating income of Rs. 304 Mn and has also booked revenue of Rs. 482 Mn in 9MFY21 ended mid-April, 2021. The company is yet to register net profit over its first two years of operations. The company had to incur fixed expenses like salary, maintenance charges and marketing expense to get the orders resulting in operating losses. Also, debt service coverage indicators stood stressed on account of net losses reported by the company in FY20.

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

As on mid July 2020, total debt of the company comprises of long-term borrowings of Rs. 158 Mn and working capital loans of Rs. 146 Mn. The capital structure of the company stood leveraged on account of low networth base with company incurring net loss during initial years of its operations and debt funded capex undertaken by the company to setup the manufacturing facilities. Overall gearing of the company was high at 3.84x at the end of FY20.

***Working capital intensive nature of business***

The operations of the company are working capital intensive in nature reflected by high working capital loan utilization of more than 95%. Moreover, the company had below unity current ratio as at the end of FY20. Major raw material for the company being plastic wrapper sheets are procured from India as well as the domestic market while ink and chemicals are imported from India. Imports are done through Letter of Credit while GPL gets a credit period of around a month for purchase from domestic market making average creditor days of 42 days in FY20. Being a new player, the company has to offer reasonable credit period to its customers as majority of them are large size players which possess high bargaining power compared to GPL. Also, the company has to maintain adequate inventory of raw material for smooth running of its production processes, entailing all lead to high reliance on working capital borrowings.

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

The raw materials for GPL are majorly imported from India, the prices of which 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 material cost contributed around ~82% of the total operating income of the company during FY20, thus, any volatility in prices of the same impacts the profitability of the company. Further, the prices of the imported raw material mainly being pet film plastics are linked to USD and also company utilizes more of dollar TR loans having lower interest rate for imports, for which the company is exposed to the foreign exchange fluctuation risk. GPL incurred foreign exchange loss of Rs. 2 Mn in FY20. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be crucial from analytical perspective.

***Project execution risk***

GPL is undergoing capex for production of 4 layers packaging materials which will result into increase in its installed capacity by 550 MT per month. The total cost for the capex is expected to be Rs. 230 Mn to be funded in the debt equity ratio of 7:3. The required debt component of Rs. 160 Mn has already been tied up; however, the execution is at very nascent stage. Out of equity portion, promoters have already infused Rs. 30 Mn and the balance will be funded through a combination of unsecured loans and internal accruals. Timely completion of the project within the time and cost estimates and satisfactory operations thereafter are the key rating sensitivities.

***Fragmented and competitive nature of industry***

Manufacturing and printing of packaging materials is highly competitive due to presence of several organised/ unorganised players being both local and international players owing to low entry barrier and low technology and capital requirement. Low product differentiation of GPL's product results in high competition from other players including traders.

**Key Rating Strengths*****Experienced management team***

GPL derives strength from the experience of its promoters who are associated with diversified industries for over two decades. GPL is managed under the overall guidance of its six-member Board of Directors (BoD) having wide experience in the manufacturing and printing sector. Mr. Amit Kumar Jhunjhunwala, managing director of GPL, has around 25 years of experience in various industries. He is also the proprietor of Nepal Agro Industries. Mr. Amit Agrawal and Mr, Manish Agrawal, Directors, have around 24 years of experience in various industries. The promoters have also been infusing funds into the company in the form of equity to fund the operational needs of the company.

***Locational Advantage***

The plant site is located in Bahuwari-5, Bara around 12 Kms from Customs main office of Raxaul, India. Since majority of raw materials used by GPL are imported through India, the factory's proximity to the border provides competitive edge towards freight etc. Also, the plant site is located in Birgunj-Pathlaiya Industrial Corridor providing proximity to various customers in different industries such as food industries, soap industries and many others.

***Diversified Customer Profile***

The customer profile consists of players in the food industry, agro industry, FMCG industry including a few reputed ones. It caters to customers across Nepal. The company's customer profile is moderately diversified with top 10 customers driving ~73% of total operating income in FY20. The diversified customer base / industry not only diffuses the risk of dependency on single industry; however, also allows the company to cater to a larger market.

***Demand for packaging materials in the country***

The Nepalese packaging industry has potential for growth since wide range of packaging materials required for various industries are imported from India and other countries. It is highly probable that with the growing economy; the need of packaging materials will also increase as demand for packaging increases with the increase in the industrial output. Also, Nepal Standards (Certification Mark) Regulation issued by Nepal Bureau of Standards and Metrology has mentioned various product range for which details of products such as price, weight shall be mentioned and for which packaging is mandatory. The outlook for the packaging industry in the long term remains stable cause of key demand drivers such as increased economic activity leading to industrial growth and industrial outputs.

### About the Company

Galaxy Packaging Private Limited (GPL) is a private limited company incorporated on January 05, 2017 for manufacturing of various flexible wrappers and packaging materials, having plant in Bahuwari, Bara, Nepal. As on mid-July, 2020, the total installed capacity for various packaging material is 350 MT per month.

Brief financials of GPL for last three years ending FY20 are given below:

For the year ended Mid July	(Rs. Million)	
	FY19 (Audited)	FY20 (Audited)
Income from Operations	78	304
PBILDT Margin (%)	(1.78)	6.11
Overall Gearing (times)	2.35	3.84
Interest Coverage (times)	(0.12)	0.71
Current Ratio (times)	1.12	0.95
Total Debt/ Gross Cash Accruals (times)	(17.33)	(45.30)

Analyst Contact	Group Head	Relationship Contact
Mr. Utsav Baral <a href="mailto:utsav.baral@careratingsnepal.com">utsav.baral@careratingsnepal.com</a> Tel No.: +977-01-4012629	Ms. Shalini Sanghai <a href="mailto:shalini.sanghai@careratingsnepal.com">shalini.sanghai@careratingsnepal.com</a> Tel No.: +977-01-4012628	Mr. Achin Nirwani <a href="mailto:achin.nirwani@careratingsnepal.com">achin.nirwani@careratingsnepal.com</a> Tel No.: 9818236069/+977-01-4012628/29/30

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

### 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 Loans	320.95	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	400.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	179.05	CARE-NP A4
<b>Total</b>		<b>900.00</b>	