

Rating Rationale
Himgiri Hygiene Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	140.23	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	1,056.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,196.23		

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 Himgiri Hygiene Private Limited (HHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HHPL are constrained by leveraged capital structure, fluctuating scale of operations and elongated operating cycle of business. The ratings are also constrained by raw material price volatility risk, foreign exchange fluctuation risk, HHPL’s presence in highly competitive nature of industry and exposure to volatile interest rates.

The ratings, however, derive strength from experienced promoters with established track record of operations, established distribution network with brand presence and moderate profitability margins. The ratings also factor in diversified product portfolio and locational advantage of manufacturing facilities.

Going forward, the ability of the company to profitably scale up its operations while managing the foreign exchange fluctuation risk will be the key rating sensitivities. Any un-envisaged debt funded capital expenditure deteriorating its capital structure and debt coverage indicators will also be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Fluctuating scale of operations and Leveraged capital structure

Company’s total operating income has been fluctuating over the past three financial years ended FY20 (audited, refers to 12 months period ended mid-July, 2020). Total Operating Income has registered growth in FY19 and decline in FY20. Manufacturing operations as well as revenue of the company got impacted by lockdown imposed by the GoN in FY20 resulting decline in total revenue by ~11% over FY19 with HHPL achieving revenue of Rs. 1,608 Mn in FY20.

As on mid July 2020, total debt of the company comprises of long-term borrowings of Rs. 161 Mn, working capital loans of Rs. 475 Mn and unsecured loans from promoters amounting to Rs. 27 Mn. The capital structure of the company stood leveraged on account of low networth base and high dependence on external borrowing to meet its working capital requirements. The overall gearing stood at above 5 times as on the

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

said date. Though the gearing ratio has improved from 9.33 times over previous balance sheet, the same continued to remain high.

Elongated Operating cycle

The operations of the company are working capital intensive in nature reflected by high working capital loan utilization of more than 93% for last 12 months ended mid-January, 2021. Moreover, the company had a low current ratio of 1.07x as at the end of FY20 representing the high working capital intensity. Being a highly competitive business, the average collection period remained high at around 85 days during FY20. Furthermore, the average collection period has been increasing on y-o-y basis in last 3 financial years (FY18-FY20). The company is required to maintain adequate inventory of raw material for smooth running of its production processes. The company keeps an inventory of around 3 months which is supported by a payable period of around 30 days; combining all entails an elongated operating cycle.

Raw material price volatility risk and foreign exchange fluctuation risk

The raw materials for HHPL 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 ~76% 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 materials are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. HHPL incurred foreign exchange losses in last 2 financial years. 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 for company's profitability.

Highly competitive nature of industry

Manufacturing and sales of soaps, detergent and home and personal care (HPC) products 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 HHPL's product results in high competition from other players including traders.

Key Rating Strengths

Experienced promoters and established track record of operations

HHPL has been into manufacturing of soaps, detergent and other allied products for around 15 years and is part of Debenara group of Nepal. The group has presence in diversified business segments which includes manufacturing of edible oils, trading and other businesses. The company is currently managed by Mr. Prakash Kumar Mundara, Managing Director of the company, having an experience of more than 15 years in Jute, Chemicals, Agriculture and Edible Oil Industry. The promoters have also been infusing funds to support the operations of the company.

Diverse product range and established brand presence with distribution network

HHPL generates its revenue from sale of variety of soaps, detergent, home and personal care products such as toilet cleaner, phenol, handwash, tissue paper and sanitizer which are sold under various registered brands established in Nepalese market. This has provided leverage to the company in front of new players entering the industry. HHPL sales all its products under 26 different brands with major brands being “Aura”, “Dhoni”, “Mr Kleen” and “XTRAA”. These products are produced in various variants based on packaging and variants as per the market demand. Also, HHPL sells its product all over Nepal through dealer network established by the company across the country. Most of the sales revenue comes through sales from these dealers.

Locational advantage for raw materials

The plant site is located in Tankisinwari, Biratnagar around 16 Kms from Customs main office of Jogbani, India. Since majority of raw materials used by HHPL are imported through India, the factory’s proximity to the border remains a positive point leading to savings in huge freight cost.

Moderate profitability margins and debt service coverage indicators

PBILDT margin has been improving on y-o-y basis from 3.68% in FY18 to 9.54% in FY20 on account of change in product mix. The company has diversified product mix having varied profitability margins. The improvement in PBILDT margin also led to increase in PAT margins which was also supported by decline in finance cost. Also, debt service coverage indicators of the company stood moderate marked by interest coverage ratio and Total debt/ Gross Cash Accruals of the company stood at 2.10x and 10x in FY20.

About the Company

Himgiri Hygiene Private Limited (HHPL) is a private limited company incorporated on December 25, 2005 for manufacturing and sales of various soaps, detergents and other home and personal care (HPC) products that includes toilet cleaner, phenol, handwash, tissue paper and sanitizer. The company has its plant located at Biratnagar-09, Morang and has been in operation for more than a decade. Currently, the total installed capacity for laundry soap is 19,000 MTPA, toilet soap is 1,275 MTPA, detergent is 5,000 MTPA and for sanitizer is 1,125 MTPA.

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

For the year ended Mid July	(Rs. Million)		
	FY18 (Audited)	FY19 (Audited)	FY20 (Audited)
Income from Operations	1,505	1,797	1,608
PBILDT Margin (%)	3.68	7.23	9.54
Overall Gearing (times)	11.14	9.33	5.08
Interest Coverage (times)	0.90	1.62	2.10
Current Ratio (times)	0.93	0.92	1.07
Total Debt/ Gross Cash Accruals (times)	(124.47)	18.25	10.02

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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	140.23	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	655.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	401.00	CARE-NP A4
Total		1,196.23	