

Panchakanya Plast Private Limited

Ratings

Instrument / Facilities*	Amount (Rs. in Mn)	Rating ¹	Rating Action
Long-term Bank Facilities	79.81	CARE-NP BB [Double B]	Assigned
Short-term Bank Facilities	860.19	CARE-NP A4 [A Four]	Assigned
Total Facilities	940.00 (Nine hundred Forty Million)		

*Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the ratings of 'CARE-NP BB' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Panchakanya Plast Private Limited (PPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PPL are constrained by fluctuating scale of operations with leveraged capital structure & modest debt service coverage indicators and working capital intensive nature of operations. The ratings also factor in exposure to raw material price volatility and its presence in highly competitive industry.

The ratings, however, derive strength from established track record of operations with experienced promoters and management team, established brand with country wide market presence and positive industry prospects.

Going forward, the ability of the company to profitably scale up its operations, managing the working capital requirements to support growth while limiting its borrowings will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Constraints

Fluctuating scale of operations with leveraged capital structure and modest debt service coverage indicators

Company's total operating income has been fluctuating over the past three financial years (FY18-FY20, FY refers to 12 months' period ended in mid-July). TOI has registered growth in FY19 and decline in FY20. PPL reported decrease in revenue by ~13% during FY20 vis-à-vis FY19 majorly due to decrease in quantity sold impacted by Covid-19 induced demand slowdown. In FY21 (based on provisional results), the company has reported the total sales of Rs. 886 Mn, a growth of ~6% over FY20.

The company has leveraged capital structure on account of high dependence on external borrowings to meet its working capital requirements. Though the total debt is increasing on y-o-y basis in the last 3 balance sheet dates (FY18-FY20); however, the overall gearing has been improving during the said period on account of increase in net worth base due to retention of profits. As on mid-July 2020, the overall gearing stood high at 3.15x.

Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios for the company stood modest at above 37 times and around 1.30 times for FY20 respectively (FY19: 24.70x and 1.55x respectively).

High inventory levels leading to working capital intensive nature of operations

The company has working capital intensive nature of operations as reflected by high working capital utilization of about 95% for the last 12 months ended mid-May, 2021. Moreover, the company had a low current ratio of 1.08x as at the end of FY20 which declined from 1.12x as at the end of FY19 on account of higher working capital borrowings.

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

The company has high working capital intensity on account of high inventory holding. The main raw material of the company is plastic cubes, paints, iron/steel components and chemicals which company is mainly importing from India and due to high lead time, the company has to maintain the minimum levels of inventory for smooth running of its manufacturing operations. Furthermore, the company is having a large product portfolio (different shapes sizes, etc.) and being a manufacturer has to stock inventory to meet the immediate demand of its customers. All this led to high inventory levels and the average inventory holding stood at 462 days for FY20. Being a competitive business, the company has to extend credit to its customers (mainly dealers / distributors) and the average collection period stood around 50 days during FY20 and the average payable period is 37 days.

Exposure to raw material price volatility

Raw material constituted more than 78% of the total cost of production for the last 2 years (FY19 and FY20). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of the raw materials like plastic cubes etc., which is a crude oil derivative. Crude oil being a product of international importance, its price is very volatile depending on the demand-supply situation in the global markets. The general volatility in the crude oil prices also has an impact on the price of this product. Since, plastic cube constitutes a major component of the raw material and hence any volatility in their prices has a direct impact on the profitability margins of the company.

Presence in highly competitive nature of industry

The Plastic Pipe industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low and pipes are regularly used in constructions, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. Furthermore, the value addition in the manufacturing of pipe and related products is limited, resulting into low product differentiation in the market. Hence, the producers of pipe products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the market prices.

Key Rating Strengths

Established track record of operation with experienced promoters

PPL derives strength from its strong promoter group belonging to Panchakanya Group. Panchakanya Group is one of the established business group having presence from 1970s in the market of Nepal and involved in diversified business of trading, automobiles, manufacturing and others. The company is managed under the overall guidance of its seven-member board of directors (BoDs) who possess wide experience in various industries and trading business. Mr. Prem Bahadur Shrestha, aged 89 years, is Director and Chairman of PPL and is engaged in industry, import, export, and service and commerce/business sector for more than 5 decades. BoDs are further supported by an experienced team across various functions/ departments.

Established brand with country wide market presence

The company sells its products (pipes & fittings) under the brand name of "Panchakanya" which is an established brand in the Nepal market on account of its long-standing presence in the industry. This provides leverage to the company in front of other players in the industry. Furthermore, PPL has established dealers/sub-dealers and depots across all major cities; which provides reach to end customers for its products.

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

Positive Industry Scenario

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. This indicates a growing demand for construction materials like pipes and fittings in Nepal.

About the Company

Panchakanya Plast Private Limited (PPL) was established in 2003 and is engaged in manufacturing Polypropylene Random Copolymer (PPR) and Chlorinated Polyvinyl Chloride (CPVC) pipes and fittings in Nepal. The manufacturing facilities are situated in Bhairahawa, Nepal with installed capacity of 5,000 Metric Tons per annum, as on mid-July 2021.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. in Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	747	965	835
PBILDT Margin (%)	12.44	13.20	12.93
Overall Gearing Ratio (times)	3.44	3.30	3.15
Interest Coverage (times)	1.26	1.55	1.31
Current Ratio (times)	1.11	1.12	1.08
Total Debt/ Gross Cash Accruals (times)	45.08	24.70	37.15

A: Audited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term Loan	79.81	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	860.19	CARE-NP A4
Total		940.00	

Contact Us

Analyst

Mr. Rujan Bajracharya
+977-01-4012629
rujan.b@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

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.