

Panchakanya Plastic Industries Private Limited

Ratings

Instrument / Facilities*	Amount (Rs. in Mn)	Rating ¹	Rating Action
Long-term Bank Facilities	14.63	CARE-NP BB [Double B]	Assigned
Short-term Bank Facilities	965.87	CARE-NP A4 [A Four]	Assigned
Total Facilities	980.50 (Nine hundred Eighty Million Five hundred thousand)		

*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 Plastic Industries Private Limited (PPI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PPI are constrained by leveraged capital structure, working capital intensive nature of operations and raw material price volatility. The ratings also factor in susceptibility to volatile interest rate 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 demand outlook of the industry. The ratings also factor in growing scale of operations with moderate profitability margins.

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

Detailed Description of the Key Rating Drivers

Key Rating Constraints

Leveraged capital structure and modest debt service coverage indicators

PPI's capital structure stood leverage on account of high dependence on external borrowing (mainly working capital loans) to meet its working capital requirements. Overall gearing remained high at 2.43x at the end of FY20 (FY refers to 12 months' period ended in mid-July); however, improved from 5.48x at the end of FY19 on account of lower utilisation of working capital loan coupled with increase in net-worth base due to profit accretion in FY20.

Working capital intensive nature of operations

PPI is involved in manufacturing of High-density Polyethylene (HDPE) pipes and fittings and procurement of raw material mainly in the form of imports. Therefore, PPI requires to stock up the requisite inventory owing to smooth running of manufacturing operations and delivery schedules. This has led to average inventory holding of 48 days at the end of FY20. Furthermore, due to project and tender sales, the collection period remains at higher side as the full payment is released after meeting all the project and tender requirements. This has led to average debtors' collection of 118 days at the end of FY20. Consequently, the operating cycle remained high above 100 days in last three years ending in FY20. The elongation in working capital cycle has increased the company's dependence on working capital borrowings. PPI's short-term liquidity remains stressed, as reflected in the weak current ratio of 1.03 times as of FY20 end. The stressed liquidity provides limited headroom to withstand near-term liquidity shocks.

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

Exposure to raw material price volatility

Raw material constituted more than 80% 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 HDPE pellets and plastic resins 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***

PPI 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 construction 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.

Growing scale of operations and improving profitability

For the period FY18-FY20, PPI’s total operating income grew from 976 Mn to 1,290 Mn reflecting a compounded annual growth rate of around 10%. Furthermore, in FY21 (based on provisional results), the company has reported the total sales of Rs. 1325 Mn, a growth of ~2.72% over FY20.

With the growth in total operating income, PBILDT margin also improved during the same period from 6.67% in FY18 to 11.34% in FY20 on account of change in product mix and steps taken by the management towards cost reduction. The other coverage indicators including total debt to GCA and interest coverage ratios for the company shown

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improvement and stood moderate at 2.61 times and 6.30 times for FY20 respectively (FY19: 1.10x and 90.50x respectively).

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 Plastic Industries Private Limited (PPI) was established in 1982 with an aim of manufacturing the High-density Polyethylene (HDPE) pipes and fittings in Nepal. The manufacturing facilities are situated in Bhairahawa, Nepal with installed capacity of 15,000 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	976	1,242	1,290
PBILDT Margin (%)	6.67	7.27	11.34
Overall Gearing Ratio (times)	4.23	5.48	2.43
Interest Coverage (times)	1.10	1.10	2.61
Current Ratio (times)	0.92	0.87	1.03
Total Debt/ Gross Cash Accruals (times)	48.52	90.50	6.30

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	14.63	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	790.75	CARE-NP A4
Short Term Bank Facilities	Non Fund Based Limits	175.12	CARE-NP A4
Total		980.50	

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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:

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