Godawari Polysacks and Fibc Private Limited

Ratings

Instrument / Facilities*	Amount (Rs. in Mn)	Rating[1]	Rating Action
Long-term Bank Facilities	174.41	CARE-NP B+ [Single B Plus]	Assigned
Short-term Bank Facilities	425.59	CARE-NP A4 [A Four]	Assigned
Total Facilities	**600.00 (Six hundred Million Only)**		

**Details of instrument / facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Godawari Polysacks and Fibc Private Limited (GPFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GPFPL are constrained by short track record of operations, leveraged capital structure, low net profitability leadind to weak debt service coverage indicators, working capital intensive nature of operations and raw material price volatility risk. The ratings also factor in susceptibility to volatile interest rate and its presence in highly competitive industry.

The ratings, however, derive strength from experienced promoter and part of established business group having presence in diversified sectors, established brand with country wide presence and locational advantage for procurement of raw materials and selling its products.

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

Short track record of operations and low net profitability

The company started its commercial operations in February 2019. The company has less than 3 years of track record of operations; however, experience of the promoters in the manufacturing and trading business partially offsets this risk. During FY21(FY refer to 12 months period ended on mid-July, Unaudited), the company has achieved total operating income of Rs. 631 Mn with PBIDLT margin of 10.40%. On account of high dependence on external borrowings, interest burden restricts the net profitability of the company and consequently, PAT margin stood at 0.32% for FY21.

Highly leveraged capital structure and weak debt service coverage indicators at the end of FY21

GPFPL's capital structure stood leveraged on account of high dependence on external borrowing (mainly working capital loans) to meet its working capital requirements to support growing scale of operations. Overall gearing remained high at above 5.00x at the end of FY21, which deteriorated from 3.49x at the end of FY20 on account of increase in total debt of company from Rs. 339 Mn at the end of FY20 to Rs. 497 Mn at end of FY21. The other coverage indicators including total debt to GCA stood high at 18.03 times in FY21 (FY20: 15.10x) and interest coverage ratio stood low at 1.64 times in FY21 (FY20: 1.80x).

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

Going forward, GPFPL is planning to undertake capex program by increasing its installed capacity from existing 4,800 MT per annum to 6,000 MT per annum, which is expected to be funded in debt to equity ratio of ~70:30. Attributed to same, the capital structure of the company is expected to remain leveraged.

Elongated operating cycle with working capital intensive nature of operations

The operations of the company are highly working capital intensive marked by an average operating cycle of approximately 150 days for FY21, primarily on account of the high inventory holding and credit period allowed to its customers. GPFPL is involved in manufacturing of tarpaulin and polysack products and the purchases of main raw materials (HDPE/LDPE fabrics and pellets and plastic granules) are in the form of imports. Therefore, GPFPL requires to stockpile the requisite inventory owing to smooth running of its manufacturing operations and delivery schedules. Furthermore, due to Covid-19 impact on the market's liquidity, the average collection period remained high at above 90 days in FY21. This leads to high reliance of the company on the bank finance for working capital needs. The average quarterly utilisation of fund-based working capital limit against drawing power was around 97% during last four quarters ended mid-July, 2021.

Exposure to raw material price volatility

Raw material constituted more than 70% of the total cost of production for the last two years ended on mid-July 2021. The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of HDPE/LDPE plastic pellets and granules which are crude oil derivatives. The general volatility in the crude oil prices also has an impact on the price of this product. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly fragmented and competitive nature of the industry, which could lead to decline in profitability margins.

Presence in highly competitive nature of industry

The Polymer industry is intensely competitive and fragmented marked by the presence of numerous 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 polymer products are essentially price-takers in the market, which directly expose their cash flows and profitability.

Exposure to volatile interest rates

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

Key Rating Strengths

Established business group and experienced promoter in both the trading and manufacturing industry

GPFPL is promoted and managed by Mr. Munna Prasad Senuriya Baniya, who is associated with Godawari Business Organization (GBO) as an Executive Chairman of the Group. GBO is an ancestral business of the promoters and was established in 1950. The group has been involved in manufacturing of TMT & plain Steel bars, HDPE pipes, transformers and trading and supply of construction materials, hardware items and electronics through different group companies

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

under GBO. Since the group is operating in the similar line of business in the Nepalese market for decades, it gives an advantage of existing distribution channel for marketing of manufactured goods from GPFPL.

Established brand with country wide market presence

The company sells Tarpaulin products and Polysack bags products under the brand name of "Godawari" which is an established brand in the Nepal market on account of its long-standing and diversified presence in the Nepalese market. This provides leverage to the company in front of new players entering the industry. Further, GPFPL has a customer base more than 200 dealers/sub-dealers across all major cities and 3 main depots in Lalitpur, Hetauda and Rautahat, which provides a ready market for its products.

Locational advantages for procurement of raw materials and selling its products

GPFPL's factory plant is situated in Hetauda, Makawanpur. Hetauda city is one of the fastest growing cities of Nepal with close proximity with the three major cities of Nepal namely Kathmandu, Chitwan and Birgunj. As majority of raw materials are imported from India, the company has an advantage of being near to border region. The company imports its raw materials from Birgunj custom port, one of the biggest and developed custom port of Nepal. Also, the company is exporting to India; thus generating ~10% export sales in the last two years ended in FY21. This arises the benefits of reduction in procurement and logistics cost for the company; thus improving the margins on its products sold.

About the Company

Godawari Polysacks and Fibc Private Limited (GPFPL) was established in 2018 and is engaged in manufacturing of two main product segments i.e. Tarpaulin and Polysac bags. The plant is located in Hetauda, Makawanpur, Nepal with current installed capacity of 4,800 Metric Tons per annum. The company has four main outlets in Nepal situated in Lalitpur, Hetauda and Rautahat.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July,	2020	2021
	(12m, A)	(12m, UA)
Total Operating Income	185	631
PBILDT Margin (%)	27.55	10.40
Overall Gearing Ratio (times)	3.49	5.02
Interest Coverage (times)	1.80	1.64
Current Ratio (times)	1.21	1.26
Total Debt/ Gross Cash Accruals (times)	15.10	18.03

A: Audited; UA: Unaudited

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	174.41	**CARE-NP B+**
Short Term Bank Facilities	Fund Based Limits	260.00	**CARE-NP A4**
Short Term Bank Facilities	Non Fund Based Limits	165.59	**CARE-NP A4**
Total		**600.00**	

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

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