

## Hanumanta Rugs Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	307.07	CARE-NP B [Single B]	Assigned
Short Term Bank Facilities	342.93	CARE-NP A4 [A Four]	Assigned
<b>Total Bank Facilities</b>	<b>650.00</b> <b>(Six hundred and Fifty Million only)</b>		

CARE Ratings Nepal Limited (CRNL) has assigned ratings of 'CARE-NP B' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Hanumanta Rugs Private Limited (HRPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HRPL are constrained by stabilization risk associated in its initial years of operations and leveraged capital structure. The ratings are further constrained by working capital intensive nature of operations, exposure to raw material prices and volatile interest rates and presence in competitive market.

The rating, however, derive strength from experienced promoters and wide-range of product portfolio with growing revenue profile.

*Going forward, the ability of HRPL to stabilize and achieve the envisaged scale of operations and rationalization of its debt through efficient working capital management would be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Stabilization risk associated with its operations

HRPL commenced its business operations in November 2019 and is involved in home decor furnishing sector. It has a relatively short track record of operations as compared to other established players in the similar business. Being new in the market, ability of the company to achieve the envisaged scale of business and scalability risk associated with the products in the light of competitive nature of industry remains crucial for the company. Furthermore, considering its short track record of operations, the company possess stabilization risk with respect to the changing business dynamics. The company achieved a turnover of Rs. 141 Mn in the first full year of business operations during FY21 (unaudited) (FY refers to 12 months' period ended mid-July).

#### Highly leveraged capital structure

FY21 was the first full year of operations for the company. During the initial phase of operations, the capital structure of the company is expected to remain leveraged due to term loans taken to set up the new manufacturing facilities and low capital base. At the end of FY21, the capital structure of the company stood highly leveraged marked by overall gearing of 14.20x. Apart from overall gearing, other coverage indicators including total debt to GCA and Interest coverage ratios for the company stood modest at 14.65x and 2.22x for FY21 respectively.

#### Significantly elongated operating cycle of business

The average operating cycle of the company stood high at more than 365 days at the end of FY21 on account of extremely high inventory days and collection period. HRPL is involved in manufacturing of different type of carpets by purchasing majority of its raw materials from India and other countries; therefore, the company is required to keep minimum inventory

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

of raw materials to avoid stock-outs and it also has wide range of product portfolio in its inventory. As the company is new in the business, the longer credit period helps to entice its customers and increase its market presence. The elongated operating cycle leads to high reliance of the company on the bank finance for its working capital requirements.

#### **Exposure to volatile raw material prices and interest rate**

The main raw material is various type of yarns, and the primary raw material is cotton and crude oil derivatives. The entities operating having yarn as its major raw material are susceptible to fluctuations in raw material prices. Cotton (one of the main raw material) being an agricultural product, its demand supply situation depends on various natural conditions like monsoons, drought and floods. It being a product of international importance, its price is very volatile depending on the demand-supply situation in the global markets. The price of other raw material, i.e. acrylic yarn is linked to that of crude oil. 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.

Also, 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 1-2 years. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

#### **Presence in competitive market**

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

#### **Key Rating Strength**

##### **Experienced promoters in similar business line**

HRPL is promoted by Mr. Manish Agarwal, having experiences of over 12 years and Mr. Anil Kumar Agarwal, having experience of over 10 years in the manufacturing and trading of carpets. They are also involved in Hanumanta Group of Industries (HGI), which is dealing in similar business lines of home décor and furnishing in the Nepalese market which is advantageous for the company.

##### **Wide range of product portfolio and market presence**

The company has wide range of carpet products providing greater attraction to customers, which then increases its product sales and customer base. HRPL sells its product all over Nepal through the existing HGI's distribution channel for marketing of the manufactured goods from HRPL.

#### **About the Company**

Hanumanta Rugs Private Limited (HRPL) is a private limited company established in 2017 and is engaged in manufacturing of different types of Rugs. The plant is located in Sonapur, Sunsari, Nepal with two carpet loom machineries having installed capacity of 2,400 sq. meters and 1,600 sq. meters per day. The company sells its wide range of products under the brand name of 'Hanumanta Rugs'.

## Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2020	2021
	(12m, A)	(12m, UA)
Total Operating Income	68.00	141.00
PBILD T Margin (%)	7.86	43.73
Overall Gearing Ratio (times)	-	14.20
Interest Coverage (times)	0.19	2.22
Current Ratio (times)	0.77	1.06
Total Debt/ Gross Cash Accruals (times)	-	14.65

A: Audited; UA: Unaudited

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