Galaxy Packaging Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating[1]	Rating Action
Long Term Bank Facilities	206.35 (Decreased from 320.95)	CARE-NP BB [Double B]	Revised from CARE-NP BB- [Double B Minus]
Short-Term Bank Facilities	860 (Increased from 579.05)	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4 [A Four]
Total Facilities	**1,066.35**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the Long term bank facilities of Galaxy Packaging Private Limited (GPL) to CARE-NP BB and CARE-NP A4+ to the Short Term Bank Facilities.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to GPL factors in successful completion of the capex for production of 4 layers packaging materials leading to the reduction in project execution risk coupled with improving financial risk profile of the company aided by growing scale of operations. However, the ratings continue to be constrained by its short track record of operations, leveraged capital structure and working capital intensive nature of business. The ratings also factors in raw material price volatility risk, foreign exchange fluctuation risk, GPL's presence in highly competitive nature of industry and exposure to volatile interest rates. The ratings, however, derive strength from experienced management team, locational advantage, reputed customer profile and growing scale of operations coupled with stable demand outlook for packaging materials in the country.

Going forward, the ability of the company to profitably scale up its capacity utilization and derive the benefits from economies of scale as envisaged on a sustained basis while rationalizing its debt through efficient working capital management will be the key rating sensitivities. Furthermore, the stabilization of the operations of the increased capacity will also remain key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations and leveraged capital structure

The company started operations from January 2019 and has only three years of track record with small scale of operations. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

The capital structure of the company has been improving in the last couple of years with improving net worth base as on mid-July 2021, backed by improving profitability in FY21 (Audited, refers to the twelve-month period ended mid-July 2021), however this was partially offset by increased debt on account of growing scale of operations. Debt equity ratio and overall gearing of the company stood at 0.96x and 2.77x respectively at the end of FY21 (2.00x and 3.84x at the end of FY20).

Furthermore, the company has completed capex related to the enhancement of capacity and operations have commenced from Mid-April 2022. However, ramp up of production as envisaged remains to be seen. The ability of the company to scale up the capacity utilization and derive the benefits from economies of scale as envisaged on a sustained basis remains a key monitorable.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature. GPL is involved in manufacturing and printing of various packaging materials by procuring raw materials both locally and by importing. Major raw materials being plastic are procured

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

from India. Imports from India are done through letter of credit. GPL gets a credit period of around a month for purchase from domestic market. With company being new in the market, in order to improve its market presence, GPL has been providing higher credit period with average collection period of around 109 days in FY21. The company keeps inventory for around 1.5 months and the inventory turnover was 42 days for FY21. Furthermore, credit period allowed to the company during FY21 was at 30 days. Total operating cycle of the company was high at 121 days in FY21 due to high collection period. All these leads to high reliance of the company on the bank finance for working capital needs. Efficient management of the working capital cycle leading to lower dependence on bank borrowings and improved liquidity position of the company will remain critical from credit perspective.

Raw material price volatility risk and foreign exchange fluctuation risk

The raw materials for GPL 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 ~83% of the TOI of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. The business operations of GPL are also exposed to volatility in foreign exchange rates for purchases invoiced in foreign currency other than Indian Rupees. Thus, 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 remains crucial to maintain its profitability margins.

Fragmented and competitive nature of industry

Manufacturing and printing of packaging materials is highly competitive due to presence of several organized / unorganised players being both local and international players owing to low entry barrier and low technology and capital requirement. Low product differentiation of GPL's product results in high competition from other players including traders.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced management team

GPL is managed under the overall guidance of its six-member Board of Directors (BoD) which includes experienced businessmen with wide experience in the manufacturing and printing sector. Mr. Amit Kumar Jhunjhunwala, Managing Director of GPL, has around 25 years of experience in various industries. Mr. Amit Agrawal and Mr. Manish Agrawal, Directors, have around 25 years of experience in various industries. The promoters have also been infusing funds into the company in the form of equity to fund the operational needs of the company

Locational Advantage and Diversified Customer Profile

The plant site is located in Bahuwari-5, Bara around 12 Kms from customs main office of Raxaul, India. Since majority of raw materials used by GPL are imported through India, the factory's proximity to the border provides competitive edge towards freight etc. Also, the plant site is located in Birgunj-Pathlaiya Industrial Corridor providing proximity to various customers in different industries such as food industries, soap industries and many others.

The customer profile consists of players in the food industry, agro industry, FMCG industry including a few reputed ones. It caters to customers across Nepal. The diversified customer base / industry not only diffuses the risk of dependency on single industry; however, also allows the company to cater to a larger market.

Improving financial risk profile aided by growing scale of operation and improving profitability

The revenue base of the company has been steadily improving over FY20-FY21. Total operating income (TOI) of the company grew to Rs. 629 Mn in FY21 from Rs. 304 Mn in FY20 backed by increased sales quantity coupled with improved average price realization. Increase in TOI have led to significant improvement in PBILDT to Rs. 88 Mn with PBILDT margin of 13.99% compared to Rs. 19 Mn with PBILDT margin of 6.11% in FY20. Furthermore, in FY21 the company's PAT stood at Rs. 39 Mn compared to net loss of Rs. 19 Mn in FY20. Net losses in previous FYs were due to company not being able to cover its increased interest and depreciation costs on account of recent commencement of operations of the project. The growth trend is likely to continue over the medium term aided by increasing capacity utilization amid a steady demand outlook. Furthermore, the company has added several new customers to its clientele, which is also likely to help grow its scale going forward.

The interest coverage ratio of the company also improved to 3.89x in FY21 amid lower debt levels and improved profitability. Total debt/ Gross Cash Accruals (GCA) stood moderate at 6.47x in FY21 and showing improvement over previous year on account of increase in GCA levels.

Stable demand outlook for packaging materials in the country

The Nepalese packaging industry has potential for growth since wide range of packaging materials required for various industries are imported from India and other countries. It is highly probable that with the growing economy, the need of packaging materials will also increase as demand for packaging increases with the increase in the industrial output. Also, Nepal Standards (Certification Mark) Regulation issued by Nepal Bureau of Standards and Metrology has mentioned various product range for which details of products such as price, weight shall be mentioned and for which packaging is mandatory. The outlook for the packaging industry in the long term remains stable cause of aided by increased economic activity leading to industrial growth and increased industrial outputs.

About the Company

Galaxy Packaging Private Limited (GPL) is a private limited company incorporated on January 05, 2017 for manufacturing of various flexible packaging wrapper materials. The company's manufacturing plant is located in in Bahuwari, Bara, Nepal. As on mid-June, 2022, the total installed capacity for various packaging material is 550 MT per month.

Brief financial performance of GPL during last 3 years is given below:

For the Year ended Mid- July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	78	304	629
PBILDT Margin (%)	Negative	6.11	13.99
Overall Gearing (times)	2.35	3.84	2.77
Interest Coverage (times)	Negative	0.71	3.89
Current Ratio (times)	1.12	0.95	1.11
Total Debt/ Gross Cash Accruals (times)	Negative	Negative	6.47

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	206.35	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	700.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	160.00	CARE-NP A4+
Total Facilities		**1,066.35**	

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