# Himgiri Hygiene Private Limited

**Ratings**

| Facilities | Amount (Rs. in Million) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 115.79 (Decreased from 140.23) | CARE-NP BB [Double B] | Reaffirmed |
| Short-Term Bank Facilities | 1,364.78 (Increased from 1,056.00) | CARE-NP A4 [A Four] | Reaffirmed |
| **Total Facilities** | **1,480.57** | | |

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' for the long-term bank facilities and 'CARE-NP A4' for the short-term bank facilities of Himgiri Hygiene Private Limited (HHPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of HHPL continue to be constrained by its leveraged capital structure, fluctuating scale of operations and profitability and working capital intensive nature of operations leading to elongated operating cycle. The ratings also factor in exposure to raw material price volatility risk, foreign exchange fluctuation risk, HHPL's presence in highly competitive nature of industry and exposure to volatile interest rates.

The ratings, however, continue to derive strength from HHPL's experienced promoters with established track record of operations, established distribution network with improving brand presence. The ratings also factor in diversified product portfolio and locational advantage of HHPL's manufacturing facilities.

*Going forward, the ability of the company to profitably scale up its operations while efficient management of working capital leading to rationalized borrowings leading to improved capital structure will be the key rating sensitivities.*

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

**Below average financial risk profile marked by modest revenue growth, volatile profitability and leveraged capital structure**

Total Operating Income (TOI) of the company grew by 5% year on year to Rs. 1,694 Mn in FY21 (Audited, refers to the twelve-month period ended mid-July 2021) amid more normal operation after declining by ~11% year on year in FY20, impacted by the first wave of the pandemic. Despite higher TOI, PBILDT margin of the company declined to 6.89% in FY21 from 9.54% in FY20 attributed to increase in cost of production due to rise in price of raw material. PBILT Margin was also impacted by change in product mix.

Furthermore, the capital structure of the company stood highly leveraged on account of low net worth base coupled with high dependence on external borrowing to meet its working capital requirements leading to limited gearing headroom. The overall gearing remained almost stable at around 5x at the end of last 2 financials years (FY20 & FY21). Attributed to high debt levels, debt coverage indicators (including loan from directors of Rs. 17 Mn) remain modest with interest coverage ratio and total debt/GCA of 2.19x and 18.97x, respectively in FY21.

**Working capital intensive nature of operations**

The company has working capital intensive nature of operations marked by an elongated operating cycle of around 149 days during FY21, primarily on account of the high collection period and inventory period coupled with lower creditor days. HHPL is involved in manufacturing its products by procuring raw materials both locally and by importing. HHPL maintains stock for

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

around 3 months and average inventory days during FY21 was 89 days. The company is required to maintain adequate inventory of raw material for smooth running of its production processes and finished goods inventory to meet the immediate demand of its customers. Furthermore, the company allows credit period of around 3 months and average collection period during FY21 was 89 days. However, HHPL's creditor days was around 30 days in FY21. Combining all these factors entails to an elongated operating cycle for the company, which leads to increased dependence on bank borrowings to meet working capital requirements. The average utilization of the company remains high around 90%.

**Raw material price volatility risk and foreign exchange fluctuation risk**

The raw materials for HHPL 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. The raw material cost contributed around ~83% of the total operating income of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. Further, the prices of the imported raw materials are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. HHPL incurred foreign exchange losses in last 3 financial years. 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 will be crucial for company's profitability.

**Highly competitive nature of industry**

Manufacturing and sales of soaps, detergent and home and personal care (HPC) products is highly competitive due to presence of several organised/ unorganised players being both local and international players owing to low entry barrier and low technology and capital requirement. Low product differentiation of HHPL's product results in high competition from other players including traders.

**Key Rating Strengths**

**Established track record of operations and experienced promoters**

HHPL has been into manufacturing of soaps, detergent and other allied products for around 15 years and is part of Debenara group and Jaju group of Nepal. Both the groups have presence in diversified business segments. Debenara group is involved in manufacturing of edible oils, trading and other businesses, while Jaju group is associated with various brands like Rumpum, 2pm, and Goodlife among others. Mr. Mahesh Jaju, Chairman of HHPL, has wide experience in various business sectors and is the founder of Jaju Group. The company is currently managed by Mr. Prakash Kumar Mundara, Managing Director, having experience of more than 15 years in Jute, Chemicals, Agriculture and Edible Oil Industry. The promoters have also been infusing funds to support the growth of the company.

**Diverse product range and established brand presence with distribution network**

HHPL generates its revenue from sale of variety of soaps, detergent, home and personal care products such as toilet cleaner, phenol, handwash and tissue paper which are sold under various registered brands established in Nepalese market. This has provided leverage to the company in front of new players entering the industry. HHPL sales all its products under 26 different brands with major brands being "Aura", "Dhoni", "Mr Kleen" and "XTRAA". These products are produced in various variants based on packaging and features as per the market demand. Furthermore, HHPL has a diverse customer base with top ten customers contributing around 38% of the total sales during FY21.

**Locational advantage for raw materials**

The plant site is located in Tankisinwari, Biratnagar around 16 Kms from Customs main office of Jogbani, India. Since majority of raw materials used by HHPL are imported through India, the factory's proximity to the border remains a positive point leading to savings in huge freight cost.

**About the Company**

Himgiri Hygiene Private Limited (HHPL) is a private limited company incorporated on December 25, 2005 for manufacturing and sales of various soaps, detergents and other home and personal care (HPC) products that includes toilet cleaner, phenol, handwash and tissue paper. The company has its plant located at Biratnagar-09, Morang and has been in operation for more than a decade. As on mid- July, 2022, the installed capacity for laundry soap is 19,000 MTPA, toilet soap is 2,400 MTPA, detergent is 5,000 MTPA and for HPC items is 3,125 MTPA.

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

**(Rs. Million)**

| For the Year ended Mid- July, | FY19 (A) | FY20 (A) | FY21 (A) |
|---|---|---|---|
| Income from Operations | 1,797 | 1,608 | 1,694 |
| PBILDT Margin (%) | 7.23 | 9.54 | 6.89 |
| Overall Gearing (times) | 9.33 | 5.08 | 5.06 |
| Interest Coverage (times) | 1.62 | 2.10 | 2.19 |
| Current Ratio (times) | 0.92 | 1.07 | 1.05 |
| Total Debt/ Gross Cash Accruals (times) | 18.25 | 10.02 | 18.97 |

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 | 115.79 | CARE-NP BB |
| Short Term Bank Facilities | Fund Based Limit | 713.78 | CARE-NP A4 |
| Short Term Bank Facilities | Non-Fund Based Limit | 651.00 | CARE-NP A4 |
| **Total Facilities** | | **1,480.57** | |

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**About CARE Ratings Nepal Limited:**

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