

Hanumanta Poly Industries Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	204.21 (decreased from 220.72)	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	345.79 (increased from 329.28)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	550.00 (Five Hundred Fifty Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Hanumanta Poly Industries Private Limited (HPIPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HPIPL continue to remain constrained by its leveraged capital structure with modest debt service coverage indicators and working capital intensive nature of operations leading to elongated operating cycle. The ratings also factor in HPIPL's presence in highly competitive industry, raw material price volatility risk, foreign exchange fluctuation risk, and exposure to volatile interest rate. The ratings, however, continue to derive strength from HPIPL being part of the Hanumanta group of Industries with experienced promoters in similar business line. The ratings also factor in growing scale of operations with moderate operating margins during FY22 (Audited; FY refers to the twelve-month period ending mid-July), wide range product portfolio with growing market presence and locational advantage for procurement of raw materials and selling its products.

Going forward, the ability of the company to continue to profitably scale up the operations along with improvement in working capital cycle management leading to rationalization of debt leading to improved solvency and coverage indicators will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure with modest debt service coverage indicators

The capital structure of the company stood leveraged with overall gearing ratio of 3.88x at the end of FY22; however, improved from 5.76x at the end of FY21. The improvement was on account of increased tangible net worth of the company owing to accretion of profit coupled with infusion of Rs. 47 Mn subordinated debt from promoters. HPIPL's interest coverage ratio stood modest at 1.78x during FY22 which deteriorated from 2.23x during FY21 on account of increased interest expenses. Total debt/ GCA stood high at 13.77x in FY22 (FY21: 12.49x) due to increase in total debt of the company. Despite sequential improvement year-on-year, the capital structure remains leveraged with low gearing headroom.

Working capital intensive nature of business leading to elongated operating cycle

The operations of the company are working capital intensive in nature. HPIPL is involved in manufacturing of different type of mattresses and foams by purchasing majority of its raw materials from India and other countries. HPIPL generally allows 90 days credit period to its dealers; however, average collection period was high at 129 days in FY22 (FY21: 124 days) on account of increased sales in the last quarter of FY22 coupled with easing of credit policy by the company to its dealers amid ongoing liquidity crisis. The company keeps high inventory due to various product types available for smooth operations,

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

depending on demand and market scenario. Inventory holding period was high at 226 days in FY22, although improved from 290 days in FY21. The company procurement of its raw material is mainly in the form of imports and average payable days stood at 105 days for FY22 (FY21: 127 days). Consequently, net operating cycle was high at 250 days at the end of FY22, improving slightly from 288 days at the end of FY21. This led to high reliance of the company on the external borrowings for working capital requirements. The high working capital requirements were met largely through bank borrowings which resulted in average utilization of over 95% of its sanctioned working capital limits.

Raw material price volatility risk and foreign exchange fluctuation risk

The prices of the HPIPL's raw materials 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 materials used in the manufacturing of mattress and foam, such as polyethylene plastic cube, latex sheet, yarn and chemical mixes account for around 64% of the total cost of goods sold for the company. The prices of these raw materials are linked to the prices of petroleum products in international market. These raw materials are majorly imported from India, Turkey, Saudi Arab, China and Bangladesh and payments to suppliers, except for procurement from India, are settled using foreign currency letter of credit at sight. The company does not hedge its foreign currency exposure, thus exposing itself to foreign currency fluctuation risk. HPIPL incurred foreign exchange loss of Rs. 1 Mn during FY22. The ability of the company to pass through changes in raw material prices to its customers and managing the foreign exchange fluctuation risks related to raw materials will be crucial from its profitability perspective.

Presence in fragmented and competitive nature of industry

The mattresses and foams industry in Nepal is intensely competitive and fragmented marked by the presence of numerous big and small players in the unorganized segment. Given the relatively low entry barriers to the industry, in terms of capital and technology requirements with limited product differentiation, this industry is characterized by players in having low pricing power which is often exacerbated by competition-induced pressures on profitability. Furthermore, in order to push sales to sustain the competition credit sales in the market has substantially increased leading to increased debtor days and high working capital requirement. The producers of carpet products are essentially price-takers in the market, which directly expose their cash flows and profitability.

Exposure to volatile interest rates

Sustained requirement for short-term working capital borrowings has led to a high interest expense for HPIPL (Rs.56 Mn during FY22) leading to direct impact in the company's net profitability. The company's interest rates are based on 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, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. Any further 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 promoters in similar business line**

HPIPL has been operating under the guidance of directors who possess wide industry experience. The company has three directors in its board chaired by Mr. Anil Kumar Agarwal who has more than a decade of experience in the manufacturing and trading of carpets. Mr. Manish Agarwal, director, has experience of over thirteen years in manufacturing and trading businesses. They are also involved in Hanumanta Group of Industries (HGI), which is dealing in similar line of businesses such as home décor and furnishing in the Nepalese market which is advantageous for the company. The BOD is aptly supported by an experienced team across various functions/departments. Growing

Growing scale of operations with moderate operating margins

During FY22, Total Operating Income (TOI) of the company increased by 18% year-on-year to Rs. 759 Mn from Rs. 642 Mn during FY21. This increase in TOI is attributable to increased sales supported by growing traction for existing products along with expansion of product portfolio with addition of new products. HPIPL's PBILDT margin remains moderate, however declined from 17.32% in FY21 to 15.38% in FY22 on account of relatively lower price realization owing to higher input prices. Furthermore, amid high interest expense coupled with foreign exchange losses during the year, HPIPL reported net profit of Rs. 19 Mn in FY22 which decreased from Rs. 20 Mn in FY21. During H1FY23 (Unaudited, H1 refer to the six-month period ending mid-January) the company booked total revenue of Rs. 263 Mn.

Wide range of product portfolio with growing market presence

The company's product range includes Polyethylene (PE) rolls, PE sheets, Mattress, Polyurethane Foam, Fiber pillow, rebonded block, Polyester Staple Fiber, Baby mat among others. This reasonably varied product portfolio helps boost the company's business prospects as a sluggish demand on one category can sometimes be offset by increased demand for any other products. Furthermore, with a wide range of product portfolio, the company can also exploit increased opportunities of cross selling to its clients. HPIPL has a growing presence in the country and sells its product all over Nepal. Currently, HPIPL has seven main dealers and also sells through direct marketing across all major cities of the country.

Locational advantages for procurement of raw materials and selling its products

HPIPL's manufacturing facility is located in Sunsari, Nepal and lies adjacent to Biratnagar city, which is considered as a gateway to Indo-Nepal borders. Since the procurement of raw materials is mainly in the form of imports and routes through Indian ports, the factory's proximity to Indian border remains added advantage in terms of freight cost saving. The company has a wide range of home décor product targeted for different customer groups at various price points. HPIPL sells its product all over Nepal through HGI's existing distribution channel.

About the Company

HPIPL is a private company established on February 1, 2015 and is engaged in manufacturing and trading of different types of home décor products. HPIPL has a manufacturing plant located in Sonapur, Sunsari, Nepal which came into operation since August 2017. HPIPL is an ISO 9001:2008 certified company and is a part of the Hanumanta Group of Industries, which is mainly involved in home décor furnishing. The company sells its products under the main brand name of 'Hanumanta' and also has various product specific sub-brands like Delight, Featherbeds, Chirag, Sure Sleep, Rolled Series and Pillow Top Series.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	229	376	642
PBILDT Margin (%)	18.98	17.32	15.38
Overall Gearing (times)	4.67	5.76	3.88
Interest coverage (times)	1.53	2.23	1.78
Current Ratio (times)	1.00	1.12	1.16
Total Debt/Gross Cash Accruals (times)	14.65	12.49	13.77

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	204.21	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund/Non-fund Based Limits	345.79	CARE-NP A4 [A Four]
Total		550.00	

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About CARE Ratings:

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