

## Jasmine Hygiene Products Private Limited <sup>(Revised)</sup>

### Ratings

Facilities	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	26.42 (Decreased from 48.00)	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	602.58 (Decreased from 929.00)	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>629.00</b> <b>(Six Hundred Twenty Nine Million Only)</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Jasmine Hygiene Products Private Limited (JHP, erstwhile Jasmine Hygiene Products converted to JHP on December 16, 2021).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JHP continues to be constrained by its leveraged capital structure and modest debt service coverage indicators, working capital intensive nature of operations, raw material price volatility risk and foreign exchange fluctuation risk. The ratings also factor in exposure to volatile interest rate and JHP's presence in highly competitive nature of industry.

The ratings, however, derive strength from experienced promoters with established track record of operations, established brand presence and marketing network and stable demand outlook for its products over the medium term.

*Going forward, the ability of the company to manage growth in operations while improving its profitability margins 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

#### Leveraged capital structure and modest debt service coverage indicators

JHP's capital structure stood leveraged on account of high dependence on external borrowings to meet its working capital requirements. The overall gearing ratio stood high at 3.96x at the end of FY22 (Audited; FY refers to the twelve-month period ended mid-July), which increased from 3.74x in FY21 on account of deterioration in tangible networth of the company amid distribution of dividend prior to conversion to Private Limited company. Interest coverage ratio of the company stood low at 1.36x in FY22 compared to 1.97x in FY21. Furthermore, Total debt/ GCA of the company increased to 19.84x (annualized) in FY22 from 17.86x in FY21 on account of higher debt levels and relatively lower gross cash accruals of the company amid increasing financing cost in FY22.

#### Working capital intensive nature of business

JHP's operations remain working capital-intensive in nature owing to large product portfolio. As a result, the company requires to stock up the requisite inventory leading to average inventory holding of around 159 days during FY22. Furthermore, being in a competitive business, the company has to extend credit to its customers (mainly distributors) and the average collection period stood around 86 days during FY22. Consequently, the operating cycle of JHP stood high at 226 days in FY22. Due to high operating cycle, the average fund based working capital utilization remains high at more than 80% during last twelve-months period ended mid-April, 2023. An elongated working capital cycle puts added financial burden on the firm, which remains a challenge given the limited gearing headroom.

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

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

The raw materials for JHP are majorly imported from China, 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 ~77% of the total operating income of the company during FY22, 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. 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.

**Exposure to volatile interest rate**

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. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

**Highly competitive nature of industry**

Manufacturing and sales of diapers and sanitary pads is highly competitive due to presence of several international players like Stay Free, Whisper for sanitary pads and Pampers, Mamy Poko Pants, Huggies for diapers. Maintaining quality as per international brands and pricing strategy of international brands largely impact growth and profitability of domestic player like JHP.

**Key Rating Strengths****Experienced promoters and established track record of operations**

JHP has been into manufacturing of sanitary pads and diapers for more than 15 years and is part of Sarda group of Nepal. The group has presence in diversified business segments viz; steel and infrastructure, FMCG, agro based industry, banking and insurance, consultancy and trading. The company is currently managed by Mr. Punit Sarda, Managing Director of the company, having an experience of more than 18 years in various manufacturing companies. The promoters have also been infusing funds in the form of unsecured loan to support the operations of the company. The manufacturing facilities is in Tankisinwari, Biratnagar around 12 Kms from customs main office of Jogbani, India. Since majority of raw materials used by JHP are imported through China via Calcutta port, the factory's proximity to the border remains a positive point leading to savings in huge freight cost.

**Established brand presence and marketing network**

JHP generates its revenue from sale of variety of sanitary pads, diapers and masks and other products such as baby wipes, menstrual cup, panty liner, tampons and shield face mask which are sold under registered brands established in Nepalese market. This has provided leverage to the company in front of new players entering the industry. JHP sales all its products under two brands being "Safety" for sanitary pads and "Cuddlers" for diapers. These products are produced in various variants based on packaging as per the demand in the market.

JHP sells its product all over Nepal through dealer network established by the company across the country. Most of the sales revenue comes through sales from these dealers.

**Increasing scale of operations**

JHP generates its revenue from its manufacturing activities through sale of diapers, pads, mask, etc. During FY22, the combined total operating income (TOI) of JHP and Jasmine Hygiene Products grew by ~27% to Rs. 1,010 Mn which includes Rs. 503 Mn earned by JHP during the last seven months of FY22. PBILDT margin of the company improved to 11.91% in seven months of FY22 compared to 8.07% in FY21. However, PAT margin of the company declined to 0.75% during FY22 compared to 0.80% in FY21 on account of high interest expense. JHP generated GCA of Rs. 16 Mn during seven months of FY22.

## About the Company

Jasmine Hygiene Products Private Limited (JHP) was initially incorporated as partnership firm on November 01, 2004 which later changed into a private company on December 16, 2021. The company has its plant located at Biratnagar, Morang and has been in operation for more than a decade. Currently, the total installed capacity for sanitary pads is 50 Million Pieces Per Annum (MPPA), for diapers is 45 MPPA and for mask is 6 MPPA.

## Financial Performance

For the Year ended Mid- July,	FY22 (7m, A)
Income from Operations	503
PBILDT Margin (%)	11.91
Overall Gearing (times)	3.96
Interest Coverage (times)	1.36
Current Ratio (times)	0.96
Total Debt/ Gross Cash Accruals (times)	19.84

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	26.42	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	602.58	CARE-NP A4
<b>Total Facilities</b>		<b>629.00</b>	

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