

Galaxy Packaging Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	254.82 (Increased from 206.35)	CARE-NP BB [Double B]	Reaffirmed
Short-Term Bank Facilities	811.53 (Decreased from 860.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,066.35 (One Thousand Sixty-Six Million and Three Hundred Fifty Thousand Only)		

Details of instruments/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 Galaxy Packaging Private Limited (GPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GPL continue to remain constrained by its leveraged capital structure and working capital intensive nature of business. The ratings also factor in raw material price volatility risk, foreign exchange fluctuation risk, and GPL's presence in highly competitive nature of industry and exposure to volatile interest rates. The ratings, however, continue to derive strength from experienced management team, locational advantage and reputed customer profile of the company. The ratings also factor in growing scale of operation albeit with volatile margins and stable demand outlook for packaging materials in the country over the medium term.

Going forward, the ability of the company to profitably scale up its operations 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.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure and weakening of debt service coverage indicators

GPL's capital structure remained leveraged, with overall gearing ratio of 4.07x at the end of FY22 (Audited; FY refers to the twelve-month period ending mid-July), which deteriorated from 2.77x at the end of FY21 majorly on account of increase in additional long-term loan to fund capex coupled with higher short-term borrowings to cater the increasing scale of operations. Consequently, debt service coverage indicators of GPL remain modest with total debt/ GCA of the firm remaining at 15.30x. Similarly, interest coverage ratio declined to 2.08x in FY22 from 3.89x in FY21. A highly leveraged capital structure with low gearing headroom can limit the financial flexibility of a company. Hence, rationalization of the debt levels will remain critical from credit perspective.

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 from India. Imports from India are done through LC while 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 119 days in FY22. The company keeps inventory for around 1.5 months and the inventory turnover was 50 days for FY22. Furthermore, credit period allowed to the company during FY22 was

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

at 29 days. Total operating cycle of the company was high at 140 days in FY22 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.

Volatile profitability owing to limited availability to pass through changes in raw material price

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 prices of these raw materials are directly linked to the prices of petroleum products in international market. Furthermore, the company customers include large FMCG players with high bargaining power making it challenging for GPL to fully pass through changes in raw materials price. The raw material cost contributed around ~88% of the total operating income of the company during FY22 (FY21: 83%). The ability of the company to pass through changes in raw material prices to the finished products related to raw materials will remain critical for maintaining stable 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 rates and foreign exchange fluctuation risk

GPL's interest expenses 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. Thus, funding taken by the firm is exposed to volatile interest rate. Furthermore, 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.

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. He is also the proprietor of Nepal Agro 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.

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

Growing scale of operations

The revenue base of the company has been steadily improving over past three years (FY20-FY22) with a CAGR of 78.33%. Total operating income (TOI) of the company grew to Rs. 968 Mn in FY22 from Rs. 629 Mn in FY21 backed by increased sales quantity coupled with improved average price realization. Moreover, revenue growth momentum continued into FY23 with GPL having already achieved total operating income of Rs. 1,112 Mn during 9MFY23 (Unaudited; refers to the nine-month period ended mid-April 2023).

Despite the growth in TOI, PBILDT margin of the company decreased to 9.01% during FY22 compared to 13.99 in FY21 amid increasing cost of raw materials. Furthermore, GPL's PAT remained a bit suppressed declining to Rs. 7 Mn from Rs. 39 Mn in FY21 amid increased interest expenses. The growth trend is likely to continue over the medium term aided by increasing capacity utilization amid a steady demand outlook.

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.

Financial performance

(Rs. In Million)

For the Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	304	629	968
PBILDT Margin (%)	6.11	13.99	9.01
Overall Gearing (times)	3.84	2.77	4.07
Interest Coverage (times)	0.71	3.89	2.08
Current Ratio (times)	0.95	1.11	0.95
Total Debt/ Gross Cash Accruals (times)	Negative	6.47	15.30

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	254.82	CARE-NP BB
Short Term Bank Facilities	Fund Based/ Non-fund Based Limit	811.53	CARE-NP A4+
Total Facilities		1,066.35	

Contact us**Analyst Contact**

Ms. Anusha Thapa

+977-01-4012630

anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012628

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977 9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.