Ganapati Door and Plyboards Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**290.30**	**CARE-NP BB- [Double B Minus]**	**Assigned**
Short Term Bank Facilities	**559.70**	**CARE-NP A4 [A Four]**	**Assigned**
Total Facilities	**850.00 (Eight Hundred Fifty Thousand Million Only)**		

Details of Facilities in Annexure 1

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term bank facilities of Ganapati Door and Plyboards Industries Private Limited (GDPI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GDPI are constrained by its leveraged capital structure, elongated operating cycle marked by high inventory period at the end of FY22 (Audited, FY refers to twelve-month period ending mid-July). The ratings also factor in fragmented and competitive nature of industry, exposure to the volatile interest rates and foreign exchange fluctuation risk.

The ratings, however, derive strengths from experienced promoter in the related field with established track record of operations, growing scale of operations with stable profitability margin. The ratings also factor in locational advantage and diversified product range with widespread dealership network.

Going forward, the ability of the company to manage growth in operations while maintaining the profit 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

The capital structure of the company was leveraged marked by overall gearing of 3.14x at the end of FY22 which deteriorated from 2.14x at the end of FY21 on account of increase in short term loans owing to increasing scale of operations of the. Short term loans increased to Rs. 343 Mn at the end of FY22 from Rs. 235 Mn at the end of FY21. Total debt to equity stood comfortable at 0.29x at the end of FY22 (FY21: 0.37x). Debt service coverage ratio stood moderate marked by interest coverage ratio of 2.44x during FY22 which however declined from 4.35x during FY21 on account of increased interest outgo. Furthermore, total debt/ GCA of the company deteriorated to 10.52x in FY22 from 7.44x in FY21 majorly on account of increase in short term loans.

Elongated operating cycle marked by high inventory period at the end of FY22

The operations of GDPI is working capital intensive marked by elongated inventory period of 210 days at the end of FY22. GDPI is involved in manufacturing of varieties of plyboards, decorative doors and other products. Raw materials used for the production is procured locally and also imported from China, India, Africa and other foreign countries. The company maintains inventory of raw material for at least 3 months to meet the order requirements. During FY22, average collection period was 27 days (FY21: 36 days). Total operating cycle of the company elongated to around 204 days in FY22 from 131 days during FY21 on account of high inventory period. A highly elongated operating cycle leads to increased reliance on bank borrowings

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

to fund its working capital requirements. Consequently, the average utilization of fund-based working capital limits stood high at around 80% against the sanctioned limits. 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.

Intense competition in the industry

Manufacturing and trading of plywood and decorative doors is highly competitive due to presence of several organized/ unorganized players being both local and international players owing to low entry barrier and low technology and capital requirement. Low product differentiation of GDPI's product results in high competition from other players including traders.

Exposure to volatile interest rates and foreign exchange fluctuation risk

Sustained requirement for short-term working capital borrowings results in a high interest expense in FY22 was Rs. 28 Mn (FY21: Rs. 12 Mn) for GDPI. The company's interest rates are based on 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. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rates, as seen over the last year or so, have added to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

Furthermore, GDPI's operations is also exposed to foreign currency exchange rate fluctuation risk as it imports its raw materials from other countries except India through LC majorly in USD. However, the product of the company is completely sold in the domestic market. Hence, the company is exposed to foreign exchange fluctuation risk. Furthermore, the company has not hedged its foreign currency exposure, thus unveiling itself to foreign currency fluctuation risk. However, there is gain on foreign exchange of Rs. 0.54 Mn in FY22 (FY21: Rs. 0.14 Mn).

Key Rating Strengths

Experienced promoters and established track record of operations

GDPI is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. The company has two directors in its board. Mr. Champalal Bothra, Managing Director, is involved in plywood business for the past three decades who has been involved in the company since its inception. Mr. Pradeep Dugar, Managing Director, has also been involved in the company since its inception. GDPI has established track record of more than a decade in manufacturing of varieties of door, plyboards and laminated sheets.

Locational Advantage and widespread dealership network

GDPI sells its product all over Nepal and has a customer base spread across all major cities in the country. Sales are made through direct marketing to existing as well as new customers, who are mainly dealers and construction companies. There are more than 100 dealers across the Nepal. The company sells its products under the brand name of "Shikhar Ply" which is an established name in the Nepalese market and provides competitive advantage to the company against new players entering the industry. The product portfolio includes manufacturing of varieties of plyboards and decorative doors as well as trading of decorative plywood, glasses and laminated sheets.

The plant site is located in Kohalpur, Banke, which is around 26.5 Kms from Indo-Nepal borders in Rupaidiha thus, providing it advantage in terms of transportation cost of raw materials. Since most of the raw materials requirements of GDPI are imported from various countries, the factory's proximity to the border remains a positive point leading to savings in freight cost.

Growing scale of operations with stable profitability margin

The operations of the company have been improving sequentially marked by increasing Total Operating Income (TOI). TOI of the company increased by CAGR of ~27% to Rs. 549 Mn over FY20-FY22. The increased sale was majorly attributable to increased demand of plyboards and decorative modern door in the construction sector and households. Additionally, PBILDT margin of the company remained steady at above 11% over FY20-FY22. During FY22, PAT margin deteriorated to ~1.79% from ~2.36% in FY21 due to increased interest outgo. The company's ability to sustain growth in the operations while maintaining the profit margins remains critical from credit perspective.

About the Company

Ganapati Door and Plyboards Industries Private Limited (GDPI) is a private limited company incorporated March 18, 2009 for manufacturing of different type of plyboards and modern doors, having plant at Banke, Nepalgunj, Nepal. Currently, the total capacity of the company for manufacturing of plywood and false door is 6,000,000 mtr. square and decorated bit is 40,000 running feet.

Financial performance of the company over 3 years period

For the period ended/ as at mid-July	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	342	451	549
PBILDT Margin (%)	11.01	11.68	11.53
Overall Gearing (times)	1.55	2.49	3.14
Interest Coverage (times)	3.81	4.35	2.44
Current Ratio (times)	0.85	0.90	0.93
Total Debt/ Gross Cash Accruals	5.33	7.44	10.52

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	290.30	**CARE-NP BB- [Double B Minus]**
Short Term Bank Facilities	Fund Based Limit	459.70	**CARE-NP A4 [A Four]**
Short Term Bank Facilities	Non-Fund Based Limit	100.00	**CARE-NP A4 [A Four]**
Total		**850.00**	

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