

Himgiri Hygiene Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	121.21 (Increased from 115.79)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	1,290.00 (Decreased from 1,364.78)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,411.21 (One Thousand Four Hundred Eleven Million and Two Hundred Ten Thousand Only)		

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 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 below average financial risk profile marked by leveraged capital structure, modest 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 with 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 leveraged capital structure

HHPL generates its revenue from sale of variety of soaps, detergent and other home and personal care (HPC) products (toilet cleaner, phenol, handwash, tissue paper, sanitizer, etc.). During FY22 (Audited; FY refers to the twelve-month period ending mid-July), Total Operating Income (TOI) of the company grew ~16% year-on-year to Rs. 1,972 Mn amid increasing average price realization of soaps and detergents. PBILDT margin of the company remained steady at around 7% during FY22, increased from 6.89% in FY21. However, the company's net profitability margin remained below 1% in FY22 (FY21: 1.22%) owing to high internet expenses.

Furthermore, HHPL's capital structure remained leveraged, with overall gearing ratio of 3.77x at the end of FY22, improved from 5.04x at the end of FY21. The improvement in gearing ratio is mainly on account of increase in tangible net worth of the company aided by equity infusion coupled with accrual of profits to the reserves. Also, debt service coverage indicators of HHPL also remain modest with high total debt/ GCA at 34.25x and interest coverage ratio of 1.33x in FY22.

Furthermore, during 9MFY23 (Unaudited; refers to the nine-month period ending mid-April), HHPL has achieved TOI of Rs. 1,730 Mn out of which around 76% of revenue is booked from sale of laundry soaps. The ability of HHPL to manage growth in the operations while maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

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

Working capital intensive nature of operations

The company has working capital intensive nature of operations marked by an elongated operating cycle of around 188 days during FY22, primarily on account of the high collection period and inventory period coupled with lower payable days. HHPL is involved in manufacturing its products by procuring raw materials both locally and by importing. HHPL maintains stock for around three months and average inventory days during FY22 was 119 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 which resulted in higher average collection period of around 95 days during FY22. However, HHPL's creditors' days was around 26 days in FY22. 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.

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 amounted to around 87% of the TOI of the company during FY22, thus, any volatility in prices of the same impacts the profitability of the company. Furthermore, 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 three FYs (FY20-FY22). 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 organized/ unorganized 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.

Exposure to volatile interest rates

Sustained requirement for short-term working capital borrowings results in a high interest expense for HHPL. 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.

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 44% of the total sales during FY22.

Locational advantage for raw materials

The plant site is located in Tankisinwari, Biratnagar which is 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- June, 2023, the total 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.

Financial Performance

	(Rs. In Million)		
For the Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,608	1,694	1,972
PBILD Margin (%)	9.54	6.89	7.08
Overall Gearing (times)	5.08	5.06	3.77
Interest Coverage (times)	2.10	2.19	1.33
Current Ratio (times)	1.07	1.05	1.05
Total Debt/ Gross Cash Accruals (times)	10.02	18.97	34.25

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Bank Facilities	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	121.21	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	1,290.00	CARE-NP A4 [A Four]
Total Facilities		1,411.21	

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