

## Panchakanya Rotomould Private Limited

### Ratings

Facility	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	<b>1,101.00</b> (Increased from 861.00)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,101.00</b> (One Thousand One Hundred One Million Only)		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Panchakanya Rotomould Private Limited (PRPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of PRPL remain constrained by the its below average financial risk profile marked by declining profitability, leveraged capital structure and modest debt service coverage indicators. The rating also factors in working capital intensive nature of operations leading to elongated operating cycle, exposure to raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and presence in competitive nature of industry. The rating, however, continues to derive strength from strong promoters and long track record of operations along with experienced management team in the related field, established brand with country wide market presence, and stable demand outlook for PRPL's product over the medium term.

*Going forward, the ability of the company to profitably scale up its operations and manage the working capital requirements while limiting its borrowings will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### **Below average financial risk profile marked by declining profitability and leveraged capital structure**

Total Operating Income (TOI) of the company grew ~23% year-on-year to Rs. 1,059 Mn during FY22 (Audited; FY refers to the twelve-month period ending mid-July) on account of improving demand scenario for the products post pandemic coupled with increased price realization. However, PBILDT margin declined by 281 bps to 7.33% during FY22 owing to higher administrative expenses. Similarly, PAT margin also decreased to 2.50% in FY22 from 4.67% in FY21 on account of higher interest outgo. During 9MFY23 (Unaudited; refers to the nine-month period ending mid-April), the company booked TOI of Rs. 568 Mn.

Furthermore, capital structure of the company stood leveraged with overall gearing ratio of 3.07x at the end of FY22, slightly improved from 3.78x at the end of FY21 on account of increased tangible net worth of the company owing to accretion of profit to reserve. Furthermore, interest coverage ratio stood modest at 1.79x during FY22, declined from 2.93x during FY21, due to decline in PBILDT coupled with higher interest outgo. With declined Gross Cash Accruals (GCA), PRPL's total debt to GCA also increased to 15.15x in FY22 from 9.88x in FY21. The ability of PRPL 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. As per combined financials, TOI increased by 17% y-o-y to Rs. 10,109 Mn with PBILDT margin of 5.78% during FY22 (FY21: 5.21%). Furthermore, combined overall gearing ratio stood high at 3.43x at the end of FY22 which slightly deteriorated from 3.12x at the end of FY21.

**Working capital intensive nature of business leading to elongated operating cycle**

The operations of PRPL are working capital intensive in nature marked by average operating cycle of 138 days during FY22. Being a highly competitive business, the company needs to extend credit period to its dealers. In addition, the company is required to maintain adequate inventory of raw materials to ensure smooth running of its production processes and finished goods inventory to meet immediate demand of its customers. This was reflected by average collection period of 86 days and average inventory period of 114 days while average credit period was 61 days. An elongated operating cycle increases reliance on bank borrowings to meet working capital requirements. Average utilization of working capital limits for the twelve months period ended mid-June, 2023 was around 50% of its sanctioned limits.

**Exposure to raw material price volatility risk and foreign exchange fluctuation risk**

The major raw material for PRPL is Polyvinyl Chloride (PVC) resin powder, which are crude oil derivatives imported mainly from Thailand. Crude oil being a global commodity, its price is volatile depending on the demand-supply situation in the international markets. This exposes the company to volatility in input prices and has a bearing on its profitability margins. Raw materials constituted around 73% of PRPL's total cost of production during FY22, thus any volatility in prices of the same impacts the company's profitability. Furthermore, the company is exposed to foreign exchange fluctuation risk as the prices of imported raw materials are linked to USD. The company's scope to improve margins will depend on its ability to pass through changes in raw material prices to the finished products while also managing the foreign exchange fluctuation risks related to raw material procurement.

**Exposure to volatile interest rate risk**

Sustained requirement for short-term working capital borrowings results in a high interest expense for PRPL. PRPL had Rs. 43 Mn as finance cost in FY22, which increased from Rs. 30 Mn in FY21, thus squeezing its net profitability. PRPL's interest rates are based on floating interest rate regime, where a certain premium is added to the quarterly base rate 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 company is exposed to volatile interest rates.

**Presence in competitive nature of industry**

The plastic pipe industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. Furthermore, the value addition in the manufacturing of pipe and related products is limited, resulting into low product differentiation in the market. Hence, the producers of pipe products are essentially price takers in the market, which directly expose their cash flows and profitability to volatility in the market prices.

**Key Rating Strengths****Strong promoters and long track record of operations along with experienced management team in the related field**

The company has an operational track record of around two decades in manufacturing of Unplasticized Polyvinyl Chloride (UPVC) pipes and fittings. PRPL derives strength from its strong promoter group belonging to Panchakanya Group. Panchakanya Group is one of the established business groups with presence from 1970s in the Nepalese market with involvement in diversified sectors such as trading, manufacturing, energy, automobiles, etc. The company is managed under the overall guidance of its seven-member Board of Directors led by Mr. Prem Bahadur Shrestha, Chairman. Mr. Shrestha is

also the founder Chairperson of Panchakanya Group and has more than five decades of experience in various industries of Nepal including manufacturing, trade and service. The board is aptly supported by an experienced management team across various departments.

### Established brand with country wide market presence

PRPL sells UPVC pipes & fittings under the brand 'Panchakanya' which is an established brand in the Nepalese market on account of its long-standing industry presence of more than three decades. This provides competitive advantage to the company against new players entering the industry. Furthermore, the company has established dealers/sub-dealers and depots across all major cities of Nepal, which provides wide reach to end customers for its products.

### Stable demand outlook for PRPL's products over the medium term

Nepalese economy is developing, and is in the phase of investment and growth in infrastructure, power sector and tourism sector, notwithstanding the impact of the covid-19 pandemic. In the recent budget presented by finance minister of Nepal for FY24, Rs. 132 Bn has been allocated for infrastructure development. Government's continued high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures augurs well for the business prospects of construction material manufacturers like PRPL over the medium term.

### About the Company

Panchakanya Rotomould Private Limited (PRPL) was established in 1989 and is engaged in manufacturing UPVC pipes and fittings. PRPL's manufacturing facility is located in Bhairahawa, Nepal with installed capacity of 5,400 Metric Tons per annum.

### Rating Approach:

CRNL has taken a combined view of Panchakanya Plast Private Limited, Panchakanya Plastic Industries Private Limited, Panchakanya Rotomould Private Limited, and Panchakanya Steel Private Limited in order to arrive at the ratings.

Brief combined financials of the above-mentioned companies for the past three years ended FY22 are given below:

For the year ended Mid-July	(Rs. Million)		
	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	5,847	8,635	10,109
PBILDT Margin (%)	9.90	5.21	5.78
Overall Gearing (times)	4.05	3.12	3.43
Interest Coverage (times)	1.37	1.62	1.43
Total Debt/Gross Cash Accruals (times)	31.26	24.98	29.23

Brief standalone financials of PRPL for the past three years ended FY22 are given below:

For the year ended Mid-July	(Rs. Million)		
	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	456	861	1,059
PBILDT Margin (%)	15.41	10.14	7.33
Overall Gearing (times)	3.62	3.78	3.07
Interest Coverage (times)	1.11	2.93	1.79
Current Ratio (times)	0.89	1.11	1.11
Total Debt/Gross Cash Accruals (times)	45.55	9.88	15.15

A: Audited

### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based Limit	712.50	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	388.50	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,101.00</b>	

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