

## Marvel Technoplast Private Limited: [ICRANP] LBBB-/A3 assigned

July 14, 2020

### Summary of rated instruments:

Instrument	Current Rated Amount (NPR million)	Rating action
Fund-based; long-term limits	277.0	[ICRANP] LBBB-; assigned
Fund-based; short-term limits	294.0	[ICRANP] A3; assigned
Non-fund based; short-term limits	329.0	[ICRANP] A3; assigned
<b>Total</b>	<b>900.0</b>	

Instrument details are provided in [Annexure-1](#)

### Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) to the fund-based long-term limits of NPR 277.0 million (including proposed limit of NPR 115.2 million) of Marvel Technoplast Private Limited (Marvel or the company). ICRA Nepal has also assigned a short-term rating of [ICRANP] A3 (pronounced ICRA NP A three) to the short-term fund-based limits of NPR 294.0 million and short-term non-fund-based limits of NPR 329.0 million.

### Rationale

The assigned ratings derive comfort from the promoters' prior experience in dealings of pipe and pipe fittings despite a moderate operational track record in manufacturing, leading to a healthy growth in the market share of Marvel. The same is reflected by its stable operating margins despite a sizeable revenue growth in the last 3-4 years. The financial profile of the company remains good with a sizeable revenue growth in the last 4-5 years and healthy operating margins of around 13-15%. This coupled with the profit retention and capitalisation (by way of bonus issue) resulted in a moderate gearing level and comfortable debt coverage indicators for the company. Marvel is the sole authorised licensee in Nepal to manufacture CPVC<sup>1</sup> pipes and fittings using FlowGuard brand from Lubrizol Corporation in addition to their product line of lead-free PVC pipes and fittings. This technology and brand tie-up has helped the company establish its own brand, Marvel, in a relatively short span of time. ICRA Nepal also notes the location-specific advantages available to Marvel, given its proximity to the Indian border and the National (East-West) Highway for the import of raw materials as well as distribution of products across the country.

The ratings, however, are constrained by the moderate liquidity profile of the company owing to periodic capital expenditure (partly funded by short-term loans), reflected by its weak current ratio. The working capital intensity of the company increased with a considerable rise in the inventory holding period and debtor recovery period in the recent past, affecting its liquidity position, which could exacerbate given the expected disruption in supply chain amid the ongoing Covid-19 pandemic. Further, given the presence of multiple players and low entry barriers, domestic pipes and pipe fitting manufacturing remain intensely competitive, posing threat to future scalability and profitability of the company. The ratings concern also arise because of high customer concentration with the top ten customers accounting for ~71% of FY2019 revenue. Moreover, the ratings reflect the inherent cyclical nature associated with the construction sector as pipe and pipe fittings are closely linked with this sector, exposing the company to volatile cash flows.

### Key rating drivers

#### Credit strengths

**Experienced promoters, growing brand presence-** Prior to manufacturing, the promoters of Marvel were involved in the import-based trading and distribution of pipes and pipes fittings for over four decades. This has helped the company achieve a sizable growth in its limited years (9 years) of operations. The brand, Marvel, has been well received by the market, as reflected by a revenue increase of 68% (CAGR<sup>2</sup>) in the last four years ending FY2019.

<sup>1</sup> Chlorinated polyvinyl chloride

<sup>2</sup> Compound annual growth rate

**Authorised licensee of Lubrizol Corporation for CPVC products manufacturing using FlowGuard brand** - Marvel is the sole authorised licensee of Lubrizol Corporation (through Lubrizol India) for manufacturing CPVC pipes and pipe fittings, using FlowGuard brand. FlowGuard is the registered trademark and plumbing brand of the Lubrizol Corporation. This technological and brand tie-up has been instrumental for revenue growth of Marvel and remains positive from the future revenue prospect.

**Healthy revenue growth with stable operating margins to help maintain adequate debt coverage indicator and improve capitalisation** - Marvel witnessed a revenue increase of 68% (CAGR) in the last four years ending FY2019 with ~53% YoY revenue growth in FY2019. The operating margins of Marvel also remained stable in the range of 13-16% during the same period, resulting in a good growth in the OPBDIT<sup>3</sup> level. This growth has supported in maintaining adequate coverage ratio with an interest coverage and DSCR<sup>4</sup> of 5.4 times and 2.6 times, respectively for FY2019. However, the coverage indicators could see some moderation over the near term amid the expected deterioration in revenue in the post-Covid era. Good profitability coupled with the retention of profits (by way of bonus issue) boosted Marvel's net worth and brought down its gearing level from 3.5 times in FY2016 to 2.6 times in FY2019 (2.3 times in H1FY2020). However, the overall gearing (TOL/TNW<sup>5</sup>) remained on the higher side at ~4 times as of end-FY2019 (3.8 times as of end-H1FY2020).

**Location-specific advantages** - Marvel enjoys location-specific advantages for being in proximity with the Indian border and the National Highway (East West), facilitating raw materials import from India as well as other countries and supplying finished products across the country.

## Credit Challenges

**Stretched liquidity profile due to periodic capex amid increasing working capital intensity** - Marvel's current ratio remained weak at ~1 time as of mid-July 2019 (0.7 time as of mid-July 2018), giving rise to liquidity concerns. The company's liquidity also remained stretched because of periodic capex in the past through utilising short-term fund to a certain extent. Marvel's working capital intensity was also rising, as reflected by an increase in NWC/OI<sup>6</sup> from 4% in FY2018 to 23% in H1 FY2020 (20% in FY2019) because of an increase in debtor recovery as well as inventory holding period. Liquidity concerns could exacerbate amid the Covid-19 induced business disruption, which could lead to delayed realisation from debtors, delayed inventory liquidation as well as slowdown in demand and consequently, its revenues.

**Competitive market with low entry barriers** - Pipes and pipe fittings manufacturing business is very competitive owing to the presence of multiple players in the segment. This risk increases further as the entry barriers in this segment remain low, raising concerns over the incremental revenue and growth of the company. However, the same is mitigated to a certain extent with sizeable revenue growth and stable operating margins in the last 2-3 years.

**Concentrated customer base** - Sales of Marvel remain highly concentrated due to its business model to sell products through the distributorship channel only. In FY2019, the top ten customers accounted for nearly 71% of the total revenue while the two customers contributed ~24% to the total revenue. This exposes the company to the risk of business loss in case of any major supply chain disruption. The company has been cautious by appointing multiple distributors in major markets to avoid the risk of supply chain disruption to some extent.

**Exposed to cyclicity associated with the construction industry** - Pipe and pipe fittings are closely linked with the construction sector. The cyclical nature of the construction sector creates uncertainty over the demand and cash cycles for the associated players like Marvel. This could have an impact on the capacity utilisation, revenue, and profit margins of the company. Volatility in cash flow due to cyclicity in the cash cycle could pose challenges, especially during the period of weak demand.

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<sup>3</sup> Operating Profit before depreciation, interest and tax

<sup>4</sup> Debt service coverage ratio

<sup>5</sup> Total outside liabilities to total net worth

<sup>6</sup> Net working capital to operating income

### Analytical approach

For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company

Marvel Technoplast Private Limited, established in 2011, manufactures pipes and pipe fittings (PVC/CPVC/HDPE)<sup>7</sup>. The pipes produced are used in plumbing, agriculture, drainage, borewell and electric conduits, among others. The products are sold under the brand name, Marvel. The company currently caters to the domestic market. Marvel has been given exclusive rights by Lubrizol Corporation (through Lubrizol India) for manufacturing and selling pipes and fittings (CPVC products) in Nepal, using its brand FlowGuard<sup>8</sup>.

Marvel is a closely held company, wherein four individuals (family and relatives) hold the entire stake. Mrs. Asha Agrawal and Mr. Sandip Kumar Sancheti, who are also among the board of directors, hold a 40% stake each. The other two shareholders, Mrs. Rachana Poddar and Mr. Shiv Kumar Agarwal, hold a 10% each.

### Key financial indicators of Marvel

Particulars	FY2018 (Audited)	FY2019 (Audited)	H1FY2020 (Provisional)
Operating Income-OI (NPR Million)	827.1	1,261.50	639.9
OPBDITA/OI (%)	13.50%	14.00%	13.40%
Total Debt/Tangible Net Worth TNW (times)	2.6	2.6	2.3
Total Outside Liabilities/ TNW (times)	4	4	3.8
Total Debt/OPBDITA (times)	2.6	2.7	2.9
Interest Coverage (times)	5.6	5.4	4.2
DSCR (times)	2.7	2.6	1.8
Current Ratio	0.7	1	1.1
Net Working Capital/OI (%)	4%	20%	23%

Source: Company data

### Annexure-1: Instrument Details

Instrument	Current Rated Amount (NPR Million)	Rating Action
Fund-based, long-term-existing (term loan/hire purchase loan)	161.8	[ICRANP] LBBB-; assigned
Fund-based, long-term-proposed (term loan)	115.2	[ICRANP] LBBB-; assigned
Fund-based, Short-term (Overdraft)	70.0	[ICRANP] A3; assigned
Fund-based, Short-term (Demand loan/Trust receipt loan/short term loan)	224.0	[ICRANP] A3; assigned
Non-fund based, Short-term (Letter of credit/Bank Guarantee)	329.0	[ICRANP] A3; assigned
<b>Total</b>	<b>900.0</b>	

<sup>7</sup> Polyvinyl chloride/Chlorinated polyvinyl chloride/High-density polyethylene

<sup>8</sup> FlowGuard is the registered trademark and plumbing brand of the Lubrizol Corporation, USA.

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## **About ICRA Nepal Limited**

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