Yeti Polychem Private Limited: Ratings reaffirmed

August 24, 2020

Summary of rated instruments:

Instrument*	Previous rated amount (NPR million)	Current rated amount (NPR million)	Rating Action
Long-term loans; fund-based	310.68	310.68	[ICRANP] LBB+; reaffirmed
	-	48.31	[ICRANP] LBB+; assigned
Short-term loans; fund-based and non-fund based	435.00	435.00	[ICRANP] A4+; reaffirmed
	32.81		Rating withdrawn
Total	**778.49**	**793.99**	

* Instrument details are provided in Annexure-1.

Rating action

ICRA Nepal has reaffirmed and assigned the long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L Double B plus) to the existing (NPR 310.68 million) and enhanced (NPR 48.31 million) long-term loan limit of Yeti Polychem Private Limited's (YPPL or the company). ICRA Nepal has also reaffirmed the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four Plus) to reduced short-term limit (including non-fund-based limits) of YPPL's. Furthermore, ICRA Nepal has withdrawn the rating assigned to the short-term loan of NPR 32.81 million due to a reduction of the loan limits.

Rationale

The rating reaffirmation factors in YPPL promoter's extensive track record in the diversified domestic business arena which remains a comfort against the difficult economic condition created by the Covid-19 pandemic. The rating also takes comfort from the regulatory relaxation accorded to the borrowers by the Nepal Rastra Bank (central bank), allowing them an ad hoc extension from the existing working capital limits to tide over the liquidity concerns. The rating continues to draw comfort from YPPL's monopolistic presence in the domestic PVC carpet segment, duty protection accorded by the Government of Nepal (GoN) to the domestic industry through import barriers on finished carpets, good brand visibility of Yeti Carpets and established sales channel; which supports the longer-term growth and profit outlook.

The ratings, however, are constrained by the impact of the Covid-19 pandemic on YPPL's revenue and profitability in FY2020. The company's production has halted, and revenues dipped considerably in the months following March 2020 because of the pandemic, with YPPL reporting a 30% decline in sales in FY2020 vs. FY2019. A prolonged delay in the resumption of normal business could stretch the company's cash flows, which could erode the debt repayment capacity of the business. Liquidity concerns are further exacerbated by the rise in working capital intensity caused by an increase in debtor recovery and inventory-holding period for FY2020. Nonetheless, the gradual liquidation of debtor/inventory and regulatory relaxation by the Central bank by directing the banks to provide an ad hoc extension of working capital limits by 10%, provides a cushion against near-term liquidity stress. The company's concentration of top customers also remains a concern, although this is partly mitigated by its strong market positioning and forward linkage into distribution (through associated entities). The ratings are also constrained by Yeti Polychem's high gearing levels (TD/TNW of ~5 times as of mid-July 2020), partly resulting from sizeable accumulated losses being carried on in the books of YPPL from the initial years of establishment. Further, the small scale of operation of the company has led to moderate cash accruals, despite adequate profit margins; which, coupled with high working capital intensity financed through bank borrowings has resulted in moderate coverage indicators. The ratings also remained constrained due to the regulatory risks as any moderation in the current import duty could result in reduced realisations and could, therefore, strain the coverage indicators of the company.

Key rating drivers

Credit strengths

Good revenue growth with relatively stable margins -

Supported by good brand recall of Yeti, the monopolistic presence of YPPL in PVC manufacturing and duty protection against imports, YPPL has registered a good growth in sales revenue. During FY2016-F2019, the sales grew at a CAGR of 20% before declining by 30% in FY2020 because of the pandemic. The operating margins of the company have largely remained steady between 12%-15% in the last four to five years, largely supported by 30% import duty on the PVC carpets.

Established brand and supply chain -

The company has generated good visibility over the years in the PVC flooring segment through branding and promotional strategy. The company sells PVC carpets and coil mats via B2C marketing and rexine-coated fabric under the B2B marketing dynamic. Its relatively high concentration at the distributor level (>85% sales in the last three to four years made to the top six distributors) remains partly mitigated by the presence of associated entities as its largest distributor (~30% sales in the last three to four years ending FY2020). The traction developed by it over the years remains a comfort for incremental growth.

Established promoter group provides financial flexibility - YPPL is a joint venture between the Kedia Organization and Reliance Group Nepal, both established business houses in Nepal. The Group has a long experience in the Nepalese market and has been involved in manufacturing, trading and the financial sectors. Established promoters and their financial strength also provides financial flexibility to YPPL.

Credit challenges

Liquidity concerns arising from business disruption caused by Covid-19 pandemic

YPPL's only production facility located at Hetauda Industrial District has remained shut since the inception of the lockdown in Nepal during late March 2020. The sales have dried up in the months following March 2020, resulting in a significant dip in H2 FY2020 sales (NPR 252 million vs. NPR 658 million in H1 FY2020). The sales revenue is expected to remain muted over the near term, which, coupled with lower economies of scale and high leverage could strain the liquidity position of the company. The company's liquidity position has stretched in recent months as is evident from the increased utilisation against working capital limits by year-end FY2020. A prolonged delay in the resumption of normal business could further stretch the liquidity situation and could necessitate additional funding support for the business.

Thin capitalisation, high gearing and moderate coverage indicators

YPPL has a leveraged capital structure with total debt/total net worth (TD/TNW) of ~5 times as of mid-July 2020. This partly stems from its small capital base, further eroded by accumulated losses carried forward from the early years of its operation (~NPR 68 million as of mid-July 2020). The gearing ratio also remains elevated because of the high working capital intensity, which is mostly bank funded. The small scale of operation, relatively moderate cash flows and high gearing results in moderate coverage indicators, which remains further supressed in FY2020 amid the Covid-19 pandemic.

Limited product diversification/ high concentration of PVC Carpet Sales

YPPL's product line consists of PVC carpets, PVC coil mats and rexine-coated fabric. PVC carpets are the major revenue drivers for the company, accounting for over 80% of its sales throughout FY2017 to FY2020, with other segments contributing a relatively nominal percentage. Over the medium term, PVC carpets are expected to remain the major revenue contributors. Therefore, any slack in the PVC segment could impact the overall revenue, profitability margins and debt coverage metrices of YPPL.

Forex risk

YPPL is exposed to the forex risk because of the mismatch in the currency for purchase of its principal raw materials (US dollar) and that of revenue realisation from sales of finished goods (Nepalese rupees). The risk becomes pronounced due to the lumpiness in procurement of raw material and limited hedging undertaken by the company. However, the company's monopolistic position and established brand traction allows it to pass on the increased cost of raw materials to its customers, to some extent.

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

Yeti Polychem Private Limited (YPPL) was incorporated in November 2011 to take over the PVC carpet-manufacturing business of erstwhile Everest Vinyl Private Limited. YPPL is a joint venture between Kedia Organisation and Reliance Group Nepal, both established business houses in the country; with individuals and institutions related to each Group holding 50% stake in YPPL. As on mid-July 2020, major shareholders of YPPL were Mr. Anil Kumar Kedia (~15% stake), Indushankar Chini Udyog Ltd (10%), Mr. Rishi Agrawal (9%), Mr. Rahul Agrawal (9%), Mr. Narendra Kumar Agrawal (6%) among others.

YPPL manufactures PVC carpets, PVC coil mats and rexine-coated fabric at its single manufacturing facility in the Hetauda Industrial District in Makwanpur district in Central Nepal. The company procures raw material from India and other countries.

YPPL has an annual installed capacity of ~14,400 metric tonnes of PVC carpets, ~3,600 metric tonnes of rexine-coated fabric and has recently installed a coil mat processing line with an annual installed capacity of ~4,000 metric tonnes. PVC carpets comprise the company's largest product segment, accounting for ~80% of its sales in FY2019, with the rexine-coated fabric accounting for 14% and coil mats accounting for the balance. The coil mat segment was added to the product portfolio in early FY2019, which is likely to change the sales mix going forward.

YPPL's customer base consists of end users across the country, with ~95% of the company's sales being made through its network of national dealers and the balance being direct sales.

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income-OI (NPR Million)	750	873	961	1,290	905
OPBDITA/OI (%)	13.0%	12.2%	12.1%	12.1%	14.3%
Total Debt/Tangible Net Worth TNW (times)	15.5	8.1	6.7	4.9	5.0
Total Outside Liabilities/ TNW (times)	16.9	9.5	8.0	5.9	5.2
Total Debt/OPBDITA (times)	4.4	4.3	4.5	3.7	5.1
Interest Coverage (times)	2.5	2.6	2.1	2.4	1.9
Debt service coverage ratio (DSCR)	2.5	2.6	2.1	1.7	1.3

Source: Company data

Annexure-1: Instrument Details

Instrument (Amounts in NPR million)	Previous rated amount	Current rated amount	Ratings
Long-term Limits	310.68	310.68	[ICRANP] LBB+ (Reaffirmed)
	-	48.31	[ICRANP] LBB+ (Assigned)
Total long-term limit (A)	**310.68**	**358.99**	
Short-term Limits (STL)*	435.00	435.00	[ICRANP] A4+ (reaffirmed)
Short-term Limits (STL)	32.81	-	Rating Withdrawn
Total long-term limit (B)	**467.81**	**435.00**	
Grand Total (A+B)	**778.49**	**793.99**	

**Short-term loan limits include funded and non-funded both. Current year STL included interchangeable non-fund based limit of NPR 335 million.*

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About ICRA Nepal Limited:

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