Shivam Plastic Industries Private Limited: [ICRANP] LBBB-/A3 assigned

November 01, 2021

Summary of rated instruments:

Instrument	Current Rated Amount (NPR million)	Rating action
Fund-based; long-term limits	173.1	[ICRANP] LBBB-; assigned
Fund-based; short-term limits	858.4	[ICRANP] A3; assigned
Non-fund based; short-term limits	348.5	[ICRANP] A3; assigned
Total	**1,380.0**	

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 173.1 million of Shivam Plastic Industries Private Limited (Shivam 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 858.4 million and short-term non-fund based limits of NPR 348.5 million.

Rationale

The assigned ratings derive comfort from Shivam's established track record, adequate market share and steady revenue profile (notwithstanding the impact of Covid-19 pandemic in FY2020) in the propylene-based fabrics manufacturing segment in Nepal. The ratings factor in the recent improvement in its financial profile, supported by improved profitability (partly due to inventory gains amid rising price of plastic granules) and the use of profits to reduce (pre-pay) the long-term debt, resulting in improved gearing levels. ICRA Nepal notes the location-specific advantages available to the company, given its proximity to the Indian border and the National (East-West) Highway for the import of raw materials as well as export and distribution of products across the country. Additionally, Shivam is a part of the Golyan Group, which has a history of over six decades in multiple sectors including agriculture, banking trading, manufacturing and hospitality in Nepal. ICRA Nepal expects the company to benefit from financial support from the promoter Group in case of exigencies.

The ratings, however, are constrained by Shivam's high dependence on exports (~56% of FY2021 revenues). Therefore, its revenue outlook and overall financial profile will depend on the ability to maintain the export revenues over the short-term and gradually lower the reliance on export revenues over the longer term. Rating concerns also arise from the moderate liquidity as reflected in a modest current ratio (despite recent improvement) and the occasional overutilisation of its working capital loan vis-à-vis its drawing power, which lowers its resilience against liquidity shocks. Further, given the presence of multiple players and low entry barriers, the domestic fabric manufacturing remains intensely competitive posing challenges for its future scalability. Further, Shivam imports almost entire of its major raw materials requirement, which exposes the company to supply and regulatory risks. The business also remains affected by seasonality as the demand for tarpaulin (second largest product in Shivam's portfolio) remains seasonal and dependent on cropping pattern.

ICRA Nepal notes that significant improvement in Shivam's financial profile over last two years stems from the healthy internal accruals, coupled with re/prepayment of term loan. The sustainability of the same will depend, among other factors, on the continuation of export revenues and its future capex plans. Significant decline in liquidity and/or debt coverage metrics arising from any disruption in export operations and/or sizeable debt-funded capex, will remain the key rating sensitivities.

Key rating drivers

Credit strengths

Experienced promoters and established track record – Shivam is a manufacturing unit under the Golyan Group. The Group has a history of over six decades with presence over multiple sectors including agriculture, banking trading, manufacturing, hospitality. This coupled with Shivam's track record of over two decades in the propylene-based woven fabric manufacturing remains a comfort from the rating perspective.

Steady revenue and improvement in operating margins leading to adequate debt coverage indicators – Shivam reported steady revenues during FY2019-FY2021 (notwithstanding the impact of Covid-19 pandemic on FY2020 sales). Despite the range-bound sales, the company's operating margins improved over the last two years ending FY2021, mainly due to the inventory gains amid rising price of plastic granules, the key raw material. This has supported its financial profile. Shivam added tarpaulin (mainly used for making green house by farmers and agri-businesses) in its product profile in FY2018, which has received good demand in the domestic market (share in overall revenue rising to ~30% in FY2021). The same has offered product diversification and increased its domestic sales, which was beforehand largely dependent on propylene fabric and exports.

Improved margins and downsizing of loans have helped to improve Shivam's debt coverage ratios with an interest coverage and DSCR[1] of 15.5 times and 6.1 times, respectively, for FY2021 significantly higher than FY2020 ratios. Similarly, its gearing levels improved significantly with TD/TNW of 1.4 times in FY2021 compared to 5.5 times in FY2019 and TOL/TNW[2] of 1.7 times in FY2021 as against 6.2 times in FY2019.

Established supply chain with diversified customer profile – Shivam has, over the years, developed a strong distribution channel of 150 plus parties both in export as well as domestic markets. The sales remain fairly distributed among the customers with top 10 parties contributing ~37% of the FY2021 revenue, depicting the relatively lower customer concentration risk.

Location-specific advantages – Shivam 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 export the finished products and supplying them across the country.

Credit Challenges

High dependence on export revenues and regulatory risk – Although the proportion of export revenues for Shivam has been declining over the years, it continues to remain high (~56% in FY2021). Export-oriented businesses like Shivam are exposed to regulatory risk as any change in trade tariffs between Nepal and India could have an immediate impact on the revenues and liquidity. Further, the company is completely imports its major raw materials. Any adverse changes in the polices or the duties applicable will have a significant bearing upon its business as well as the financial profile.

Competitive market with low entry barriers –The fabric manufacturing business is very competitive owing to the presence of multiple players in the segment, with low entry barriers. This coupled with the competition from imports raise concerns from the incremental revenue and growth perspective. The company's average annual sales realisation per KG for tarpaulin declined by 40% in FY2021, while sales volume increased by ~100%, which underscores the competitive pressure. This also remains a concern to the future scalability for the company. Its ability to maintain the working capital intensity, therefore, remains important for incremental liquidity and profitability profile.

Moderate liquidity – Shivam's short-term liquidity remains moderate as evidenced by a modest current ratio of 1.2 times as of FY2021 end and occasional overutilisation of working capital loan vis-à-vis its drawing power. Although healthy profits in FY2021 helped in improving its liquidity profile to some extent, the sustainability of the same remains to be seen. Moreover, the current working capital intensity remains partly benefitted by sizeable support from export

1 Debt service coverage ratio

2 Total outside liabilities to total net worth operations, wherein the debtor recovery period is relatively low. Any impact on export operations could stretch the inventory and debtor realisation period for the company and put pressure on its liquidity profile.

Unsecured debtors – Shivam is exposed to the risk arising from counterparty payment default risk as its major customers (both domestic and export operations) remain largely unsecured.

Raw material price volatility risk – The prices of plastic granules are linked to the crude prices and has remained highly volatile during the last 1-2 years. This risk remains accentuated due to the irregularities in raw material purchases, which exposes the company's future revenue and profitability to the sudden changes in raw material prices.

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

Established in 2000, Shivam Plastic Industries Pvt. Ltd. is among the large manufacturers of polypropylene woven fabric, HDPE woven tarpaulin fabric. The products manufactured are sold both in domestic market as well as exported (mainly to India). It has an annual production capacity of 10,000 metric tonnes per annum (MTPA). Shivam is a joint venture of Golyan family (Golyan Group) and Agarwal family.

Shivam is a closely-held company, wherein six individuals (friends and family) hold the entire stake. Mr. Devendra Kumar Agarwal, Chairman of the board holds 19% of the stake. Mr. Basudev Golyan, its Vice Chairman, has 25% stake, followed by Mrs. Kumud Golyan (16%), Mr. Shakti Kumar Golyan (15%) and Mr. Nikhil Agrawal and Mr. Vijay Kumar Agrawal holding 13% each.

Key financial indicators of Shivam

Particulars	Audited				Provisional
	FY2017	FY2018	FY2019	FY2020	FY2021
Operating Income-OI (NPR Million)	852.8	1,029.3	1,608.2	1,396.4	1,643.2
OPBDITA/OI (%)	4.6%	3.5%	7.3%	8.6%	15.5%
Total Debt/Tangible Net Worth TNW (times)	1.4	4.0	5.5	2.6	1.4
Total Outside Liabilities/ TNW (times)	3.5	7.1	6.2	3.3	1.7
Total Debt/OPBDITA[3] (times)	2.3	12.1	6.0	3.8	1.8
Interest Coverage (times)	3.0	1.5	1.8	2.2	15.6
DSCR (times)	3.0	1.5	1.2	1.5	6.1
Current Ratio	1.0	0.9	0.9	1.1	1.2
Net Working Capital/OI (%)	8%	21%	31%	26%	26%

Source: Company data; TNW excludes revaluations reserves of NPR 275.8 million, NPR 271, NPR 266.5 million, NPR 262.1 million and NPR 258 million in FY2017, FY2018, FY2019, FY2020 and FY2021 respectively.

[3] *Operating Profit before Depreciation, Interest and Tax*

Annexure-1: Instrument Details

Instrument	Current Rated Amount (NPR Million)	Rating Action
Fund-based, long-term-proposed (term loan)	173.1	[ICRANP] LBBB-; assigned
Fund-based, Short-term (Overdraft)	21.5	[ICRANP] A3; assigned
Fund-based, Short-term (Demand loan/Trust receipt loan/short term loan)	836.9	[ICRANP] A3; assigned
Non-fund based, Short-term (Letter of credit/Bank Guarantee)	348.5	[ICRANP] A3; assigned)
Total	**1,380.0**	

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About ICRA Nepal Limited

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