

Jagdamba Spinning Mills Limited¹: Long-term rating upgraded; short-term rating reaffirmed; ratings removed from 'Issuer Not Cooperating' category

September 11, 2023

Summary of rating action

Instrument*	Previous Rated Amount (NPR million)	Current Rated Amount (NPR million)	Rating action
Fund based; long-term limits	912.6	1,167.0	[ICRANP] LBB; upgraded from [ICRANP] LBB- and removed from Issuer Not Cooperating category
Fund based; short-term limits	1,730.0	515.0	[ICRANP] A4; reaffirmed and removed from Issuer Not Cooperating category
Non-fund based; short-term limits	750.0	1,399.0	
Total	3,392.6	3,081.0	

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

Rating action

ICRA Nepal has upgraded the long-term rating of Jagdamba Spinning Mills Limited (JSM) (formerly Jagdamba Spinning Mills Private Limited) to [ICRANP] LBB (pronounced ICRA NP L double B) from [ICRANP] LBB- (pronounced ICRA NP L double B minus) and reaffirmed the company's short-term rating at [ICRANP] A4 (pronounced ICRA NP A four). The ratings have been removed from Issuer Not Cooperating category.

Rationale

The rating upgrade/reaffirmation factors the company's steady revenue growth and operating margins which continues to support the debt service indicators. The ratings take comfort from JSM's moderate gearing levels with total debt (TD)/tangible net worth (TNW) of ~1.5 times as of mid-April-2023. The ratings also factor in the company's adequate track record (operating from 2005) and its experienced promoters. JSM is a part of the Saurabh Group, which has long experience in the manufacturing/processing sector in Nepal, lately focussing mainly on the cement and steel industries. The ratings favourably view the duty drawback as well as export incentives provided by the Government of Nepal (GoN) to export-based units (3%-8% cash incentives for synthetic yarn exported by JSM), which support the profit margins of exporters and enhance their competitiveness in the international market.

However, the ratings are constrained by the high export dependence of JSM's sales revenue (~92.1% of sales from export for FY2022 and ~93.4% for 9M FY2023) and therefore its vulnerability to the trade policies and regulations of the importing nations. High export dependence also elevates the supply chain risk. The competitive edge of domestic spinning mills in Nepal emanates from the export incentives/duty drawback given to synthetic staple fibre exporters in exporting nations (mainly India, thereby making it profitable for synthetic staple fibre producers to export to Nepal instead of selling to Indian spinning mills), the preferential treatment to Nepalese yarn export by yarn-importing nations under regional trade agreements (by India) and the generalised system of preferences for least developed nations (by European nations). Therefore, the continuation of these frameworks will remain important for the sustainability of the business and profit margins of the spinning mills in Nepal. Rating concerns also arise from the working-capital intensive nature of JSM's operations. The company carries high debtor days (~145 days for FY2022) as well as high inventory levels

¹ Formerly Jagdamba Spinning Mills Private Limited
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which results in a high working capital intensity. NWC/OI has ranged from ~62% to as high as ~91% in the past five years (ending FY2022).

Although the long track record of yarn export from Nepal, the existence of relatively fewer spinning mills in operation in Nepal and the current favourable regulations of both synthetic fibre exporting nations and synthetic yarn importing nations are sources of comfort; any change in the regulations will remain a key rating sensitivity for JSM.

Key rating drivers

Credit strengths

Experienced promoters and strong group – JSM’s promoters have more than 25 years of experience in the manufacturing sector in various large-scale industries. JSM is a part of the Saurabh Group, which has an established presence in various sectors with stakes in several large-scale industries such as cement and steel. The Group companies also include units involved in the production of tea, spun yarn, and synthetic woven fabrics among others. JSM was established by the Group in 2005 as an export-based business as well as for diversifying the portfolio.

Moderate capitalisation and satisfactory coverage indicators – JSM has maintained a satisfactory financial profile with moderate gearing and adequate coverage indicators. The company has a moderate gearing level with TD/TNW of ~1.5 times as of mid-April 2023. The revenue growth in recent periods along with good operating margins (OPBDITA/OI of ~18.4% and ~22.3% for FY2021 and FY2022 respectively) have led to satisfactory coverage indicators for the period.

GoN’s export incentives – The Nepal Government, with the aim of reducing the country’s current account deficit, has been providing various incentives to Nepali exporters. As a part of the incentive, JSM has been availing a cash incentive of 3%-8% on the value of its exports. In addition, the GoN provides a refund on the taxes and duties paid during the import of raw materials and auxiliary raw materials for the export operations. This has helped JSM in maintaining its competitiveness against international competitors while maintaining respectable operating margins.

Credit challenges

High export dependence; vulnerable to trade policies/regulations of importing countries – The synthetic yarn (mainly polyester) manufactured by JSM is largely exported (mainly to India and Turkey) with minimal domestic sales. Nepalese synthetic yarn manufacturers like JSM benefit from favourable provisions of importing nations such as 0% custom duty by Turkey under Generalised System of Preferences provision and preferential customs duty of ~6% by India (which are eligible for input credit in the case of import made under the bonded warehouse mechanism) under South Asian Free Trade Area (SAFTA) provision. Therefore, the sustainability of JSM’s business will depend on the continuation of the current favourable provisions. Any negative changes could erode the competitive ability of yarn exporters in Nepal and could deteriorate their financial profiles.

High working capital intensity with high debtor concentration– JSM has a stretched working capital cycle because of high debtor and inventory days, which leads to high working capital intensity. NWC/OI has ranged from ~62% to as high as ~91% in the past five years (ending FY2022). Despite modest improvement for 9M FY2023, the NWC/OI remains high at ~44% with a cash cycle of ~146 days for the period, necessitating sizeable working capital financing through bank and promoter loans. The debtor (and customer) concentration of JSM also remains high with the top 20 debtors as of mid-July 2022 and mid-April 2023 accounting for ~98% and ~97% of total debtors respectively. Although the reputed counterparties (textile manufacturers/distributors in India and Turkey), JSM’s long-standing relations with them and adequate documentation during the import-export process to establish the legal right over the receivable amount remain a comfort, the lack of adequate debtor security mechanisms and stretched debtor days pose rating concerns.

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](#)

Links to previous rating rationale:

[Fresh Bank Loan Rating - July, 2021](#)

[Ratings downgraded and moved to Issuer not cooperating category – February, 2023](#)

About the company

Established in 2005, Jagdamba Spinning Mills Limited (JSM) (formerly Jagdamba Spinning Mills Private Limited) manufactures fibre-based yarn products, namely polyester yarn, polyester viscose blended yarn and acrylic yarn. Its registered office and production plant is in Kamahariya VDC-4, Rupandehi. The company is a part of the 'Saurabh' Group, which has operations across various manufacturing, processing and trading sectors in Nepal including cement and steel manufacturing. JSM was converted to a 'public limited' company on 14th July 2021. Major shareholders of the company include Mr. Durga Prasad Neupane (~40% stake), Mr. Bishnu Prasad Neupane (~22% stake) and Mr. Baibabh Neupane (~16% stake), among others. Mr. Bishnu Prasad Neupane is the Chairman of the company.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (Provisional)
Operating income (OI; NPR million)	2,172	1,276	1,564	2,328	2,783
OPBDITA/OI (%)	12.8%	9.7%	18.4%*	22.3%*	13.0%
Total debt/Tangible net worth (TNW; times) ^	3.3	2.9	1.6	1.7	1.5
Total outside liabilities/TNW (times)	3.8	3.1	1.9	1.9	1.6
Total debt/OPBDITA (times) ^	5.0	9.9	3.7	4.1	4.3
Interest coverage (times)	2.7	1.4	5.2	19.8#	2.6
DSCR (times)	2.4	1.2	3.3	9.7#	2.0
Net working capital/OI (%)	63%	91%	76%	62%	44%
Current ratio (times)	1.0	1.1	1.2	1.2	1.2

Source: Company data

* NFRS implementation for FY2021-FY2022.

^ updated ratios for FY2019-FY2020 following reclassification of director loans as debt (formerly classified under 'other liabilities')

The company had capitalized NPR 95.5 million out of the total NPR 121.68 million total interest expense for FY2022. The coverage indicators considering the full interest expense for the year result in Interest coverage of 4.3 times and DSCR of 3.3 times

Annexure-1: Instrument details

Instrument	Previous Rated Amount (NPR million)	Current Rated Amount (NPR million)	Rating Action
Long-term Limits			
Fund-based; Term loan for working capital	-	300.0	[ICRANP] LBB; upgraded from [ICRANP] LBB- and removed from 'Issuer Not Cooperating' category
Fund-based; Medium/Long-term loan	102.6	867.0	
Fund-based; Proposed long-term loan	810.0	-	
Total Long-term Limits (A)	912.6	1,167.0	
Short-term Limits			
Fund-based; Overdraft/ TR/ Cash credit/ Working capital loans	1,730.0	515.0	[ICRANP] A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Non-fund-based; Bank guarantee/ Letter of credit	750.0	1,399.0	
Total Short-term Limits (B)	2,480.0	1,914.0	
Grand total (A+B)	3,392.6	3,081.0	

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About ICRA Nepal Limited:

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