

Mangalam Industries Private Limited: Ratings reaffirmed

December 28, 2023

Summary of rating action

Instrument	Last rated amount (NPR million)	Current rated amount (NPR million)	Rating action
Long-term loans; fund-based	279.0	343.95	[ICRANP] LBB- (reaffirmed)
Short-term loans; fund-based	305.0	255.00	[ICRANP] A4 (reaffirmed)
Short-term loans; non-fund-based	411.2	410.00	[ICRANP] A4 (reaffirmed)
Total	995.2	1,008.95	

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

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP double B minus) and the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the bank loan limits of Mangalam Industries Private Limited (MIPL).

Rationale

The rating reaffirmation continues to factor in MIPL's established track record and its experienced promoters. The ratings positively factor in the sustained scale growth after capacity expansion in FY2020. Although the nominal degrowth in FY2023 sales amid broader economic slowdown is a concern, the longer-term growth trajectory offers comfort (CAGR of ~22.1% in the past five years ending FY2023). The company's diversified product profile and customer profile (notwithstanding relatively higher sales to a related-party intermediary i.e. distributor, with moderate credit profile) also remains a positive for revenue sustainability. ICRA Nepal also notes the positive demand outlook for construction sector over long term, notwithstanding near-term pressures. The locational advantage being near the Indian border as well as the east-west highway which allows for relative ease in raw material import as well as distribution of finished products, also remains a positive.

The ratings, however, remain constrained by the company's weak liquidity position with continued working capital drawing power overutilization, which leaves the company susceptible to liquidity shocks. This remains a major challenge amid the liquidity strain developing across the construction sector and its supply chain amid the unfavourable economic condition created by slowdown in public sector expenditure and tightened credit flow from banking sector. MIPL's working capital intensity continues to rise due to the build-up in debtor levels with NWC/OI rising from ~38% in FY2021 to ~50% for FY2023. The debtors are mostly concentrated in higher ageing bucket (~73% of debtors as of mid-December 2023 were in >120 days bucket) which increases the receivable risk. Although the gearing level of the company has eased over the years, the higher interest rates has pressurized MIPL's debt coverage metrics. Further, the rating also reflects the inherent cyclical nature associated with the construction sector (pipes and fittings are closely associated with this sector), which exposes the company to volatile cash flows.

Key rating drivers

Credit strengths

Experienced promoter group and over a decade of operations in Nepal

The promoters of MIPL have long experience in the manufacturing sector. The company started operations in 2011 and has over a decade of track record in Nepali market. The promoters also have stakes in multiple sectors such as construction materials, plastics, real estate, travel & tourism and energy.

Scale growth after capacity expansion

MIPL has witnessed strong revenue growth in the past five years (ending FY2023) with a CAGR of ~22.1% in overall revenue during the period. The sales level has reported a marked growth after the capex in FY2020 (during the pandemic). The ability of the company to achieve sales growth while maintaining the margins, underscores good competitive positioning in the industry. Although the moderation in FY2023 sales is a concern, the broader growth trend remains satisfactory which offers comfort.

Diversified product and customer profile

MIPL produces multiple products in the pipe and fittings segment which includes CPVC (chlorinated polyvinyl chloride) plumbing pipes and fittings (largest segment with ~40% sales), followed by PVC (polyvinyl chloride with ~35% sales) plumbing pipes and fittings as well as HDPE (high density polyethylene) and uPVC (unplasticized polyvinyl chloride) pipes and fittings. The diversity in MIPL's product line remains a positive for revenue sustainability. As the leading products of MIPL are mostly used in households, it also results in a relatively diversified customer profile which augurs well for the long-term stability of MIPL's revenue profile.

Credit Challenges

Weak liquidity profile with high working capital intensity and aged debtor profile

MIPL has a weak liquidity profile which is reflected in a weak current ratio and sustained overutilization of the working capital drawing power in the recent years. The recent spike in debtor levels with debtor days of ~192 day for FY2023 has led to a sharp increase working capital intensity of the company contributing to high working capital debt levels. Sizeable proportion of debtors are in higher-ageing bucket (~73% of debtors as of mid-December 2023 is in >120 days bucket) which remains a concern. Pressure in short-term liquidity is also contributed by the periodic capex financed from internal accruals/working capital loans. This leaves the company vulnerable to short-term liquidity shocks.

High gearing pressurizing coverage indicators

The gearing levels of MIPL remain relatively high with TD/TNW of ~2.6 times as on mid-July-2023 despite improvements made in recent years. Amid the high borrowing rates in FY2023, the coverage indicators of the company have weakened with interest coverage of ~1.8 times. However, on account of stretched repayment tenure on long-term loans, the DSCR remains relatively comfortable at ~1.4 times for FY2023.

Inherent cyclical nature associated with construction industry

Pipes and fittings are closely linked with the construction sector. The cyclical nature of the construction sector creates uncertainty about the demand and cash cycles of associated players such as MIPL. This could have an impact on the capacity utilisation, revenue, and profit margins of the company. Volatility in the cash flow due to cyclical nature in the cash cycle could pose challenges, especially during the period of weak demands.

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](#)

Link to last rating rationale:

[Mangalam Industries Pvt. Ltd. BLR -Surveillance Rationale May 2022.pdf](#)

About the company

Incorporated in 2009 as a private limited company, Mangalam Industries Private Limited (MIPL) is a manufacturer of pipes and pipe fittings, namely PVC, CPVC, uPVC and HDPE. The company started off as a joint venture (JV) between Indian and Nepalese investors. The Nepalese investors purchased the stake of JV partners and the company currently has 100% domestic ownership. The pipes and fittings manufactured by MIPL are used in plumbing, agriculture, drainage,

borewell, water supply, electric conduits and numerous other applications. The products are sold under the brand name Mangalam. The company largely caters to the domestic market but has been exporting its products to the Indian market since 2020, using the distribution chain of its former JV partner.

The shareholders of the company are Ms. Shashi Churiwal and Ms. Shiny Khetan, who have 71.9% and 28.1% stakes, respectively. Mr. Abhinav Churiwal is the Managing Director of MIPL.

Key financial indicators of MIPL

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating income (OI; NPR million)	510	329	1,005	1,144	999
OPBDITA/OI (%)	17.3%	14.6%	13.5%	18.9%	19.2%
Total debt/Tangible net worth (TNW; times)	7.4	13.4	5.5	3.1	2.6
Total outside liabilities/TNW (times)	9.1	15.5	6.6	4.0	3.5
Total debt/OPBDITA (times)	6.8	14.7	5.5	3.6	3.9
Interest coverage (times)	2.3	0.9	3.6	2.7	1.8
DSCR (times)	1.5	0.7	2.8	2.2	1.4
Net working capital/OI (%)	59%	98%	38%	40%	50%
Current ratio (times)	1.0	0.8	0.8	0.9	1.0

Source: Company data

Annexure-1: Instrument Details

Instrument	Last rated amount (NPR million)	Current rated amount (NPR million)	Rating action
Long-term loans (Fund-based)			
Term loans, Hire-purchase loans	279.0	343.95	[ICRANP] LBB- (reaffirmed)
Short-term loans (Fund-based)			
Overdrafts, Short-term loans, Trust receipt loans, Import loans	305.0	255.00	[ICRANP] A4 (reaffirmed)
Short-term loans (Non-fund-based)			
Letter of Credit, Bank guarantees, Performance bond	411.2	410.00	[ICRANP] A4 (reaffirmed)
Grand Total	995.2	1,008.95	

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About ICRA Nepal Limited:

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