

Yeti Carpet Private Limited: Ratings reaffirmed

January 03, 2024

Summary of rating action

Instrument* (Amounts in NPR million)	Previous rated limit	Current rated limit	Rating Action
Long-term loan limits	419.6	449.9	[ICRANP] LB+; reaffirmed
Short-term loan limits	180.0	125.0	[ICRANP] A4; reaffirmed
Total	599.6	574.9	

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

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) assigned to the long-term loan limits of Yeti Carpet Private Limited (YCPL or the company). ICRA Nepal has also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) assigned to the company's short term loan limits.

Rationale

The ratings mainly remain constrained by YCPL's stretched financial profile with high leverage levels (despite the improvement in recent years) and its modest debt servicing indicators. The company's nascent stage of operations (from FY2020 onwards, with the pandemic impacting the stabilisation in initial years), leads to moderate revenue levels against its debt obligations. This has been exerting pressure on the liquidity and coverage ratios of the company, especially in the current high interest-rate regime. High debt burden has also led to muted internal accruals in recent years, which has led to elongated impact of sizeable losses sustained in initial years of operation. The regulatory risks (regarding any changes in duty protection), raw material price volatility risk and supply chain risks (any disruption in import of raw materials) also remain among other rating concerns.

Nonetheless, the ratings continue to draw comfort from the extensive track record of YCPL's promoters across the manufacturing, trading, and financial service sectors of Nepal. ICRA Nepal also positively notes the improvement in the company's revenue, operating profit margins (OPM) and working capital cycle in recent years, albeit the sustainability of the same remains to be seen. The ratings also consider the strong brand recall of 'Yeti' and its established sales channel, both mainly stemming from the relatively long track record of its sister concern in the PVC-based carpet manufacturing business, under the same brand name. Going forward, the company's ability to further improve its scalability, prudently manage the working capital levels and further improve its capitalisation profile, will remain among the key rating sensitivity.

Key rating drivers

Credit strengths

Established promoter group – YCPL is a joint venture between the Kedia Organisation and the Reliance Group, both established business houses in Nepal, having long experience in the Nepalese business arena including manufacturing, trading, and financial sectors. The linkages to established promoters has provided financial flexibility to YCPL, as evident from debt funding access from established bank at a competitive premium over the bank's base rate. YCPL started operations from FY2020 and was benefitted by the traction developed by its group unit named Yeti Polychem Private Limited (rated [\[ICRANP\] LBBB-/A3@](#)) that produces PVC carpets under the common brand name of 'Yeti'.

Duty protection and relatively consolidated market provide stable demand outlook – The company is among the few players in the non-woven and tufted carpets producers in Nepal. The carpet industry remains duty-protected against cheaper imports (through customs duty of up to 30% in imports of finished goods as against 5% in major raw materials). A consolidated industry and duty protection are expected to benefit the demand outlook for the company. This is also

reflected in the company's ability to register healthy sales growth of above ~50% (albeit on a low base) during FY2022 and FY2023 along with improved OPM (~23% in FY2023 as against ~15% in FY2021), although its sustainability remains to be seen.

Credit challenges

Leveraged capital structure and stretched debt coverage ratios; scalability to remain critical – YCPL's gearing continues to remain high at 4.5 times as of mid-July 2023 (despite improvement in recent years) and hence remains above the central bank prescribed cap of 4 times. The capital structure has been mainly impacted by the sizeable losses sustained till FY2021 (eroding ~41% of its share capital as of mid-July 2023) and muted internal accruals thereafter on account of high interest expenses, which largely offset the impact of improving OPM. The company's small scale of operation and high debt levels is reflected in its modest total debt to OPBDITA metrics of ~5 times for FY2023. Given the high debt levels, the company's debt service ratio (DSCR) remained modest (less than 1 time in the last four years ending mid-July 2023) which is expected to remain suppressed over the near term, with the recently added principal repayment obligations for the permanent working capital loan (utilized from the last quarter of FY2023). The company also has limited headroom in its drawing power (~9% as of mid-July 2023) which could have provided support. The company's ability to scale-up its business, while maintaining or improving the working capital cycle, will remain critical to ensure adequate operational cash flows and liquidity to meet its bank obligations and hence will remain a key rating sensitivity.

Limited track record and stabilisation risk – Although YCPL commenced operations during FY2020, its business operations were mostly suppressed by the pandemic during FY2020 and FY2021. While the production and sales for FY2022 and FY2023 have improved compared to the previous years, the company is yet to achieve stabilisation and the optimum level of capacity utilisation (utilisation of ~14% and ~37% for non-woven carpet segment and tufted carpet segment respectively during FY2023).

Regulatory and raw material price volatility risks – As the company remains duty-protected against cheaper imports, it will remain vulnerable to any regulatory changes in import duty structure. The company is also highly dependent on imported raw materials (fibres and yarns), which makes it susceptible to supply-chain bottlenecks and price volatility caused by changes in global commodity prices.

Link to the previous rating rationale:

[Rationale-Yeti Carpet Private Limited-Fresh Bank Loan Rating-July 2022](#)

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

Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Yeti Carpet Private Limited (YCPL) was incorporated in February 2018 to take over the manufacturing business of the erstwhile Yeti Fabrics Private Limited. YCPL is a joint venture between the Kedia Organisation and the Reliance Group (both established business houses of Nepal), with each group holding 50% stake in YCPL. The company's operations began during FY2020. YCPL manufactures non-woven and tufted carpets by importing the raw materials such as fibres and yarns. The company's factory is located at Birgunj-32, Madhesh Province, Nepal. As of mid-July 2023, the major shareholders of YCPL were Mr. Anil Kumar Kedia (~25% stake), Mr. Aayush Kedia (~15%), Mr. Narendra Kumar Agrawal (~13%) and Mr. Lokesh Todi (~13%), among others.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating Income-OI (Sales; NPR million)	192	304	463
OPBDITA/OI (%)	15.4%	20.4%	22.7%
Total Debt/Tangible Net Worth TNW (times)	5.2	4.7	4.5

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Total Outside Liabilities/ TNW (times)	5.3	4.9	5.1
Total Debt/OPBDITA (times)	20.2	8.8	5.1
OPBDITA/Interest (Interest coverage; times)	0.7	1.3	1.5
DSCR (times)	0.5	1.0	0.9
Net Working Capital/OI (%)	80%	42%	24%
Current Ratio	1.1	0.9	0.9

Source: Company data

Annexure-1: Instrument Details

Instruments (Amount in NPR Million)	Last rated amount	Current rated amount	Rating Action
Long-term, fund based (A)	419.60	449.97	[ICRANP] LB+; reaffirmed
Term loan	419.60	382.81	
Permanent working capital loan	-	67.16	
Short-term loan limits (B)	180.00	125.00	[ICRANP] A4; reaffirmed
Fund based: Overdraft	30.00	30.00	
Fund based: TR/ICADD/STD-L-OC	150.00	95.00	
Non-fund based: Letter of Credit	(100.00)	(95.00)	
Grand total (A+B)	599.60	574.97	

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)

sailesh@icranepal.com

Ms. Banu Pandey (Tel No. +977-1-4519910/20)

banu@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha (Tel No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977-1-4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.