

Yeti Polychem Private Limited: [ICRANP] LBB+/ A4+ (Assigned)

April 25, 2019

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loans; fund-based	310.68	[ICRANP] LBB+ (Assigned)
Short-term loans; fund-based and non-fund based	467.81	[ICRANP] A4+ (Assigned)
Total	778.49	

* Instrument details are provided in Annexure-1.

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L Double B plus) to the NPR 310.68-million long-term loans of Yeti Polychem Private Limited (YPPL or the company). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four Plus) to YPPL's short-term loans (including non-fund-based limits).

Rationale

The assigned ratings factor in the extensive track record of YPPL's promoters, across manufacturing, trading and financial services sectors. The ratings also take into account the benefits that YPPL derives from being the only domestic manufacturer of PVC-based carpets, as well as the duty protection accorded to the domestic carpet industry by the Government of Nepal (GoN) through import barriers on finished carpets. Despite its short track record of operations, YPPL has been able to build good brand visibility and has an established sales channel. This coupled with positive demand outlook has aided the company's sales growth.

The ratings, however, are constrained by the company's thin capitalisation arising from sizeable accumulated losses which have translated into high gearing. The losses were accumulated in the stabilisation phase of the company's operations. Although the company has been able to report growth in operating income in recent years, the profitability remains modest due to lack of economies of scale and concomitantly higher expense ratios. Working capital intensive nature of business and modest profitability are likely to result in higher reliance on working capital borrowings over the medium term. The modest profitability results in moderate coverage indicators; even with the sales realization supported by high duty protection against cheaper imported products. Any moderation in import duty could result in reduced realisations and could therefore strain the coverage indicators of the company.

Key rating drivers

Credit strengths

Benefits arising from the company's status as the sole domestic manufacturer and duty protection

The company is the only manufacturer of PVC carpets in Nepal and faces competition only from imported goods. However, duty protection against cheaper imports (through customs duty of up to 30%) and positive demand outlook for PVC carpets has helped the company register good growth in sales (CAGR ~15% over the last three years ending FY2018) with stable, albeit modest, profit margins. The import barriers will help the company maintain its profit margins over the medium term.

Established brand and supply chain

YPPL has been in operation since 2013-14 after taking over the auctioned production facilities of erstwhile Everest Vinyl Private Limited. Despite short track record of operations, the company has generated good visibility in the PVC flooring segment through focussed branding ("Yeti") and advertisement measures. The company has an established supply chain comprised of few large customers/distributors who then pass on the products to small distributors/retailers. The supply chain of YPPL also benefits from forward linkage with distributors (largest distributor of YPPL is an associated

entity), which partly offsets the risk arising from customer concentration (>80% of FY2018 sales were made through top five distributors).

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 long experience in Nepalese market with in manufacturing, trading and financial sectors. Established promoters and their financial strength also provides financial flexibility to YPPL.

Credit challenges

Thin capitalization, high gearing and moderate coverage indicators

YPPL capital structure has been impacted by the losses accumulated by the company in its early years of operation. As on mid-July 2018, YPPL had an accumulated loss of NPR 121 million, eroding the paid-up capital base of NPR 200 million, which has led to an elevated gearing. The company's modest profitability has resulted in moderate coverage indicators.

Limited product diversification

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 ~80-85% of sales in FY2018. PVC coil mat is the latest product line introduced by YPPL (from early FY2019) and its increased contribution to overall sales will take some time to materialise. Over the medium term, PVC carpet is expected to remain the leading product segment, accounting for ~70-75% of sales. As such, YPPL's product profile is concentrated and any impact on sales and/or margin of PVC carpets could have a corresponding impact on YPPL's financial profile and debt coverage metrics.

Forex risk

YPPL is exposed to 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 good brand position 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-January 2019, 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 Hetauda Industrial District in Makwanpur district in Central Nepal. The company procures raw material from India and other countries.

YPPL has annual installed capacity of ~14,400 metric tonnes of PVC Carpets, ~3,600 metric tonnes of Rexine coated fabric and has recently installed coil mat processing line with annual installed capacity of ~4,000 metric tonnes. PVC carpets comprise the company's largest product segment, accounting for ~85% of sales in FY2018, with Rexine coated fabric accounting for the balance. With coil mat added to the product portfolio in early FY2019, the sales mix is likely to change 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, the balance being direct sales.

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Audited)
Operating Income-OI (NPR Million)	750	873	961
OPBDITA/OI (%)	13.0%	12.2%	12.1%
Total Debt/Tangible Net Worth TNW (times)	15.5	8.1	6.7
Total Outside Liabilities/ TNW (times)	16.9	9.5	8.0
Total Debt/OPBDITA (times)	4.4	4.3	4.5
Interest Coverage (times)	2.5	2.6	2.1

Source: Company data

Annexure-1: Instrument Details

Instrument	Limit (NPR in Million)	Ratings
Long term, fund based		
Term loan	306.51	[ICRANP] LBB+
Hire purchase loan	4.17	[ICRANP] LBB+
Total long term, fund based (A)	310.68	
Short term		
Fund based (OD/TR/DL/STL)	236.81	[ICRANP] A4+
Non-fund based (LC/GT)	231.00	[ICRANP] A4+
Fund based-within LC (TR/DL)	(146.00)	[ICRANP] A4+
Total short term, fund/non-fund based (B)	467.81	
Grand total (A+B)	778.49	

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About ICRA Nepal Limited:

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