PRESS RELEASE

BHUSAL PLY AND BAMBOO INDUSTRIES PRIVATE LIMITED
March 2023

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	446.52	IRN B+	Assigned
Short Term Bank Facilities	473.48	IRN A4	Assigned
Total	**920.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (Single B Plus) to the long term bank facilities of NPR 446.52 Mn and the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 473.48 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Bhusal Ply and Bamboo Industries Private Limited (BPBI) derives comfort from its experienced promoter/ group- "Bhusal Group" having presence in industry for over two decades through its trading and manufacturing units among others. The rating also takes comfort from the backward integration for supply of "core veneer" through its group company supporting an effective supply chain management. The growing demand for plywood industry in Nepalese market with the scope for export also remains a rating positive. These rating strengths are however constrained by the limited track record of operation especially in the plywood segment with exposure to project implementation risk for the additional capital expenditure. The rating also factors in the large working capital requirements, leveraged capital structure, intense competition & presence of substitutes, environment regulation, foreign exchange risk associated with the import of chemicals and sustainability risk. Hence, the company's ability to scale up its operation while improving capacity utilization and prudent working capital management remains crucial.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team

BPBI is a part of Bhusal Group and derive its strength from promoters having strong presence in Nepal through their group entities in trading, manufacturing, hospitality and other services. BPBI is led by Mr. Balkrishna Bhusal, Chairman, having over three decades of experience in trade and industry and Mr. Amrit Bhusal, Managing Director, having over half a decade of experience in the industry. Further, the promoters are assisted by a group of knowledgeable and seasoned professionals, which enhances their comprehension of the market's intricacies and facilitates a positive connection with the suppliers and the customers.

Backward integration through its group company ensures raw materials availability

The group company "Bishal Veneer Udhyog Private Limited" facilitates the procurement of core veneer required for plywood manufacturing. This is expected to improve the supply chain management with uninterrupted raw material supply along with cost savings and quality control.

Growing demand for plywood products in Nepalese market along with the scope for export

The plywood industry is currently experiencing a surge in demand primarily due to the growth in the construction sector, particularly in the emerging economies. As urbanization continues to accelerate, the demand for housing and infrastructure also increases, leading to a greater need for plywood as a construction

material. Additionally, the rise of e-commerce has created new opportunities for the plywood industry, as more businesses require packaging materials to ship their products. The fact that plywood is a renewable and biodegradable material with sustainability benefits has also contributed to the increase in demand, as the consumers become increasingly environmentally conscious. Moreover, with the recent government announcement *(through budget of FY22/23)* of a cash subsidy of up to 8% on export value has led to a significant increase in the scope for exports in the recent years, particularly in the plywood industry, which remains a positive to BPBI.

Key Rating Weaknesses

Limited track record of operation with exposure to project implementation risk for additional capex: The company has an operational track record of less than two years with a limited installed capacity. In order to meet the growing demand both inside and outside Nepal, it is currently undergoing a capacity expansion in a cost of ~NPR 187 million. Around 45-50% of the funding for this project comes from debt, and the project size is relatively large when compared to BPBI's current net worth. Nonetheless, the project is in its final stage and is expected to commence operation by April/ May 2023 (~2 months from now). Hence, adequate and profitable ramp up in sales post commercialization also remains a key factor to watch out for.

Large working capital requirement: Although BPBI has witnessed some improvement in its profit accruals, its liquidity position is still strained owing to its significant working capital intensity. BPBI's weak liquidity is also evident from its low current ratio and persistent overutilization of working capital drawing power, despite some recent improvements. This means that the company continues to face challenges in meeting its short-term obligations and utilizing its working capital efficiently, which puts a strain on its liquidity position. Going forward, the working capital requirement is expected to remain large over the medium term, given the expected expansion in scale of operation.

Intense competition with presence of substitute
The plywood industry is intensely competitive with several unorganized players coupled with the availability of substitute products and low entry barrier. Plywood Industry faces competition from other building materials, such as steel, concrete, and plastics. These materials may offer advantages over plywood in terms of cost, durability, and environmental sustainability.

Sustainability and Environment risk: The plywood industry, including companies like BPBI, is facing pressure to adopt sustainable practices and source raw materials responsibly. The primary raw material used in plywood production is core veneer, which is directly sourced from the forests, making sustainability a significant concern. Also, the industry's production process involves several stages, such as logging, veneer peeling, drying, gluing, pressing, and finishing, each of which has the potential to cause environmental damage, including deforestation among others. Given the potential environmental impact, any unfavourable changes in environmental regulations could significantly affect the business operations.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
The company was incorporated in January 2013 as Evergreen Industries Private limited and was later in January 2021 acquired by Bhusal Group and renamed as Bhusal Ply and Bamboo Industries Private limited. The company is involved in the production and sale of bamboo-based products, including plywood boards, doors, and other bamboo- related products. BPBI's factory unit is located in Ramgram of Nawalparasi district

and has an installed capacity of 38,400 sq. ft. per day for plywood. BPBI is ongoing a capacity expansion which is further expected to increase its capacity by 172,800 sq. ft. per day as of April/May 2023. BPBI belongs to Bhusal group, where Mr. Balkrishna Bhusal is the chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22
	Audited	Audited
Total Operating Income (in NPR Mn.)	2	108
EBITDA Margin (%)	Neg	3.80
Interest Coverage Ratio (x)	Neg	0.79
Current Ratio (x)	0.97	0.57
Overall Gearing Ratio (x)	2.48	3.76

** Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	216.52	IRN B+
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	230.00	IRN B+
Fund Based Bank Facilities- Overdraft	Short Term	20.00	IRN A4
Fund Based Bank Facilities- Trust Receipt (within LC)	Short Term	(180.00)	IRN A4
Fund Based Bank Facilities- Working Capital Loan (Proposed)	Short Term	153.48	IRN A4
Non Fund Based Bank Facilities- LC & BG[1]	Short Term	300.00	IRN A4
Total Facilities		**920.00**	

Analyst Contacts

Ms. Grishma Dhungana
Tel No.+977-1-4483304/4485906
grishma.dhungana@infomericsnepal.com

Mr. Dipesh Pote Shrestha
Tel No.+977-1-4483304/4485906
dipesh.shrestha@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
Tel No.+977-1-4483304/4485906
rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:
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[1] Letter of Credit (LC) & Bank Guarantee (BG)

asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit **https://infomericsnepal.com/**

Infomerics Credit Rating Nepal Limited
Tanka Prasad Marga, Baneshwor Height, Kathmandu
Phone: +977-1-4483304/4485906
Email: info@infomericsnepal.com
Web: www.infomericsnepal.com