PRESS RELEASE

Bhusal Ply and Bamboo Industries Private Limited

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	698.15 (Enhanced from 446.52)	IRN B+	Reaffirmed
Short Term Bank Facilities	245.00 (Reduced from 473.48)	IRN A4	Reaffirmed
TOTAL	**943.15**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN B+ (Single B Plus) assigned to the long term bank facilities of NPR 698.15 Mn and the rating of IRN A4 (A Four) assigned to the short term bank facilities of NPR 245.00 Mn.

Detailed Rationale

The reaffirmation of ratings 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 and increase in total operating income albeit in a low base. 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 and leveraged capital structure. The ratings also factor in the working capital intensive nature of business, 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 operations while improving capacity utilization and prudent working capital management will remain key rating sensitivities.

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.

Increase in total operating income albeit in a low base
Total operating income (TOI) of the company stood at ~NPR 108 Mn in FY22, as this was the first full year of operation. BPBI commenced its operation from ~Mid-FY21, reported operating income of ~NPR 2 Mn. With the increase in the scale of operation, operating margins has also improved to ~4% FY22. Similarly, in FY23, TOI increased to ~NPR 133 Mn from ~NPR 108 Mn in FY22, however EBIDTA Margin decreased to 3.27% in FY23 from 3.80% in FY24 due to increase in cost of raw materials. However, PAT Margin increased to 1.12% in FY23 from 0.35% in FY22 due to capitalisation of interest in FY23. Gross Cash Accruals (GCA) remained at NPR ~5 Mn in FY23. The ability of the company to stabilise the operation while passing on the increased cost to the final consumer remains crucial amidst the competition, going forward.

Key Rating Weaknesses

Leveraged capital structure and moderate debt service coverage indicators of the company
BPBI reported increase in total debt to ~NPR 515 Mn as on mid-July 2023 compared to ~NPR 362 Mn as on mid-July 2022 mainly on account of increase in long term loan for factory expansion in FY23. On account of infusion of equity share capital of NPR 50 Mn in FY23, Tangible net worth has increased to ~NPR 148 Mn in FY23 from ~NPR 96 Mn in FY22 and the overall gearing ratio of the company has slightly improved to ~3.49x in FY23 from ~3.76x in FY22. Interest Coverage Ratio was Nil in FY23 due to full capitalisation of interest expenses regarding construction of building and plant and machinery. Total debt to GCA has improved to 103x in FY23 from 167x in FY22 due to increase in GCA. However, Total Outside Liabilities to Tangible Net Worth (TOL/TNW) has slightly deteriorated to 4.31x in FY23 from 3.80x in FY22 due to increase in total debt and increase in creditors on account of factory expansion. Nonetheless, with the further expected equity infusion of NPR 50 Mn in FY24 from promoters and improvement in the revenue reserves, the overall business capital indicators are expected to improve going forward.

Working capital intensive nature of business
The operations of the company are working capital intensive in nature. The collection period was 117 days during FY23 improved from 368 days during FY22 due to increase in cash transaction from credit transaction with Indian suppliers. However, the inventory holding period rose to 229 days in FY23 from 199 days in FY22 due to requirement of safety stock for fulfilling increasing demand and the major raw material is wood which is seasonal in nature and so needs to maintain adequately in stock. The payment period increased to 153 days in FY23 from 13 days in FY22 mainly due to ongoing project of factory expansion. Total operating cycle of the company was 193 days in FY23 improved from 554 days in FY22. The average utilization of fund-based working capital limit has remained above 60% of approved limit in last twelve months ended mid-May, 2024.

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 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, greenhouse gas emissions etc. Given the potential environmental impact, any unfavourable changes in environmental regulations could significantly affect 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 30,459,000 sq. ft. per annum for plywood. BPBI belongs to Bhusal group, where Mr. Balkrishna Bhusal is the chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	1.90	108.18	132.86
EBITDA Margin (%)	Negative	3.80	3.27
Interest Coverage Ratio (x)	-	0.79	-
Current Ratio (x)	0.97	0.57	0.37
Total Debt/GCA (years)	Negative	167.25	103.31
Overall Gearing Ratio (x)	2.48	3.76	3.49

Earnings before Interest Tax Depreciation Amortization (EBITDA)
Debt Service Coverage Ratio (DSCR)
**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	460.29	IRN B+
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	229.60	IRN B+
Fund Based Bank Facilities- Hire Purchase Loan	Long Term	8.26	IRN B+
Fund Based Bank Facilities- Overdraft	Short Term	20.00	IRN A4
Non Fund Based Bank Facilities- LC & BG[1]	Short Term	225.00	IRN A4
Total Facilities		**943.15**	

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