

PRESS RELEASE

JAGDAMBA SPINNING MILLS LIMITED

September 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BBB- (Is)	Assigned
Short Term Bank Facilities	2,224.00	IRN A3	Assigned
TOTAL	2,224.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuers with this rating are considered to have a moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk.

Also, Infomerics Nepal has assigned the rating of IRN A3 (A Three) to the short-term bank facilities of NPR 2,224.00 Mn.

Detailed Rationale

The ratings assigned to Jagdamba Spinning Mills Limited (JSML) and its bank facilities derive strength from its experienced promoter group – Saurabh Group, supported by an experienced management team with its established track record in the industry. The ratings also factor in company's debt averse policy resulting in improved gearing ratio of 0.26x at the end of FY24. The ratings also consider the healthy growth in revenue (CAGR of ~36% in last 3 FYs ending FY24) coupled with optimized capacity utilization and moderate debt service coverage indicators of JSML, albeit economic slowdown. The ratings also take into account the export incentives (4%-8% cash incentives for synthetic yarn exported by JSML) and duty drawbacks provided by the Government of Nepal, which help sustain profit margins and enhance the company's global competitiveness.

However, the ratings are constrained by its high dependence on exports, with ~92% of its sales coming from exports in FY23 and ~94% in FY24. Additionally, the company relies heavily on imports, with ~95% sourced from India, making it vulnerable to changes in trade policies and regulations of importing countries. Another rating concern is the high customer concentration, as the top 10 customers accounted for ~ 90% of sales in FY24 (~96% of sales in FY23), indicating significant reliance on a few key clients. Rating concerns also arise from the stabilization risk of the under-implementation expansion project which could impact the timely realization of increased production capacity and profitability. Going forward, the company's ability to maintain a healthy profitability profile, enhance capitalization and coverage metrics and successfully executing an IPO for timely completion of the planned capex within projected time and cost, will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and strong group

JSML's promoters bring over 25 years of experience in the manufacturing sector, with involvement in various large-scale industries. The company is part of the Saurabh Group, a well-established conglomerate with a strong presence across multiple sectors, including cement and steel. The Group's diverse portfolio also includes businesses in tea production, spun yarn, and synthetic woven fabrics. JSML was founded by the Saurabh Group in 2005 to focus on export-driven operations and

further diversify the Group's business activities.

Healthy financial profile with improved gearing ratio

Healthy business growth (~36% CAGR in the last three years ending FY24) with moderate margin levels, coupled with debt averse policy, have supported the company's financial profile. The company's capitalisation profile is comfortable with a gearing of 0.26x, TOL/TNW of 0.55x and total debt/EBITDA of 1.33x as of mid-July 2024. Similarly, the coverage indicators are healthy with interest coverage ratio (ICR) of ~3.13x and debt service coverage ratio (DSCR) of ~3.01x for FY24. The company's plan to add new plant and machinery using IPO proceeds and retained profits could impact these figures unless matched by a proportional increase in revenue, which is yet to be determined.

Optimized capacity utilization

JSML's capacity utilization has improved significantly over the years, rising from ~70% in FY20 to ~97% in FY24. This improvement is in line with the increase in installed capacity, which grew from 9,125 MTPA in FY20 to 17,885 MTPA in FY23 and remained stable in FY24. After peaking at ~98% in FY22, capacity utilization briefly dipped to ~87% in FY23, following the capacity expansion, but rebounded to ~97% in FY24. The company's ability to effectively use its expanded capacity highlights strong demand and operational efficiency, supporting growth in production and sales.

Improving working capital intensity

The company's working capital efficiency improved to ~37% in FY24 from ~62% in FY21, driven by better management of receivables and inventory. This has strengthened the company's liquidity, with the use of its working capital loan remaining within limits (~47% as of mid-July 2024, down from ~63% in mid-July 2023). However, the company's ability to continuously manage its working capital will be key to maintaining stable cash flows, reducing debt levels, and ensuring profitability.

Government incentives strengthen export competitiveness

To reduce the country's current account deficit, the Government of Nepal has provided various incentives to Nepali exporters, including JSML. JSML benefits from a cash incentive of 4%-8% on its export value, along with tax and duty refunds on imported raw materials used in export operations. These incentives have enabled JSML to stay competitive in the international market while maintaining healthy operating margins.

Key Rating Weaknesses

Concentrated revenue profile

The revenue profile for FY24 exhibits a highly concentrated distribution, with the majority of sales concentrated in a few key customers and regions. Notably, India dominates the revenue landscape, while Nepal contributes a modest. The top three customers in FY24 comprise ~66% of the total revenue (~71% in FY23), highlighting a significant dependency on these major clients. The top ten customers alone account for ~90% of the sales in FY24 (~96% in FY23), underscoring the concentration risk and potential vulnerability to shifts in demand or relationships with these key customers.

Volatility in raw material price

JSML primarily imports polyester fibers from India, and the prices of these raw materials, which are market-linked and set periodically, expose the company to significant price volatility. With raw materials cost averaging over 80% of the total operating income in last 3 FYs ending on FY24, any fluctuations in prices have a direct and substantial impact on profitability, making the company highly sensitive to changes in input costs.

Dependency on trade provisions for synthetic yarn exports

JSML's synthetic yarn, primarily polyester, is predominantly exported to India (~94% in FY24), with

limited domestic sales. Nepalese manufacturers like JSML benefit significantly from favorable trade provisions: Turkey offers a 0% customs duty under the Generalized System of Preferences (GSP), while India provides a preferential customs duty of ~6% under the South Asian Free Trade Area (SAFTA), which is eligible for input credit under the bonded warehouse mechanism. The sustainability of JSML's business hinges on the continuation of these favorable trade provisions. Any adverse changes could undermine the competitive edge of Nepali yarn exporters and negatively impact their financial performance.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in September 2005, Jagdamba Spinning Mills Limited (JSML) later converted to public limited company in July 2021. The company's manufacturing unit is located in Kamariya-3, Rupandehi, while its registered corporate office is situated at Tinkune, Kathmandu. JSML is part of the Saurabh Group and focuses on manufacturing Polyester Spun Yarn (PSY) and Polyester Viscose Yarn (PVY) with total installed capacity of 17,885 MTPA. The major shareholders of the company are Mr. Durga Prasad Neupane, holding ~30% of the shares, Mr. Bishnu Prasad Neupane, with ~21%, and Mr. Baibabh Neupane, owning ~16%. Mr. Bishnu Prasad Neupane serves as the Chairman of the company.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	1,564	2,328	3,796	3,920
EBITDA Margin (%)	18.39	22.30	14.14	13.30
Interest Coverage Ratio (x)	5.19	19.83 ¹	3.10	3.13
Total Debt/ EBITDA (x)	3.74	4.13	3.19	1.33
Current Ratio (x)	1.72	1.68	1.32	1.56
Overall Gearing Ratio (x)	1.64	1.71	1.13	0.26

*Classification as per Infomerics Nepal standards

¹ The company had capitalized NPR 95.5 Mn out of the total NPR 121.68 Mn total interest expense for FY22.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Short Term Loan	Short Term	755.00	IRN A3
Non-Fund Based Bank Facilities- Short Term Loan	Short Term	1,469.00	IRN A3
Total Facilities		2,224.00	

Analyst Contacts

Mr. Utshav Bikram Malla

Tel No.+977-1-4583304/4585906

utshav.malla@infomericsnepal.com

Ms. Samigya Acharya

Tel No.+977-1-4583304/4585906

samigya.acharya@infomericsnepal.com



Infomerics Credit Rating Nepal Limited

Relationship Contact

Mr. Rabin Pudasaini

Tel No. +977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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