

## Rating Rationale

### Sagarmatha Agro Trading Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities- Working Capital Loan	630.00	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>630.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A4+’ assigned to the short term bank facilities of Sagarmatha Agro Trading Private Limited (SATPL).

#### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SATPL continues to remain constrained by fluctuating scale of operations, leveraged capital structure and working capital intensive nature of operations. The rating also factors in susceptibility to price fluctuation of seasonal agro products with fragment and competitive nature of industry along with exposure to volatile interest rates and import duties.

The rating, however, derives strength from experienced promoters, established brands with established distribution network, locational advantage, moderate profitability margins and favorable demand outlook of the industry.

*Going forward, the ability of the company to profitable scale up of its operations while efficiently managing the working capital loans will be the key rating sensitivities. Any elongation of operating cycle and relying more on its working capital loans from current levels will also be the key rating sensitivities.*

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Fluctuating scale of operations and leveraged capital structure*

Company’s total operating income (TOI) has been fluctuating over the past three years (FY18-FY20). TOI has registered a growth in FY19 and decline in FY20. The company has achieved TOI of Rs. 2,122 Mn in FY20. The declined in TOI in FY20 is mainly attributed to the COVID-19 lockdown and restrictions imposed in both India and Nepal to contain the spread of virus across two nations.

The company has leveraged capital structure on account of high dependence of external borrowing to meet its working capital requirements. The overall gearing has shown improvement at the of FY20 over previous balance sheet date on account of infusion of funds in the equity share capital amounting Rs. 30 Mn. Apart

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

from infusion of funds, accretion of profit in the net worth and reduction in overall debt due to lower utilization of working capital borrowings also led to improvement in overall gearing. Though overall gearing stood moderate at 1.30x at the end of FY20; however, it is expected to deteriorate going further.

On account of the low profitability margins and high debt levels, the interest coverage ratio of the company remained weak and stood at 1.76x in FY20. Furthermore, the total debt/ GCA remained high at 9.51x in FY20.

#### ***Working capital intensive nature of business***

The operations of the company are working capital intensive in nature due to high volume procurement of agro products through imports. SATPL is involved in import of different types of rice and other agro-products from India mainly Bihar, Uttar Pradesh and Delhi state and payments are made to suppliers within ~15 days to avail the cash discount. Being a highly competitive business, the company has to give extended credit period upto 120 days to its customers and the average collection period stood 75 days during FY20. Being an importer and trading company, SATPL is required to maintain adequate inventory of material on account of lead time for purchases and to ensure regular supply of to its customers, the average inventory period at around 20 days in last 2 financial years (FY19 & FY20). From the agro products available in godowns, SATPL makes gradual sales to its customers distributed all across Nepal and high collection period leads to high reliance on its working capital loans. Any inability of company to make continuous sales and its timely collection in the market will put stress on its liquidity position.

#### ***Susceptibility to price fluctuation of seasonal agro products***

Being agro products are seasonal in nature with production and prices dependent on various factors like area under production, yield for the year, demand supply scenario, festive session, consumer spending and inventory carry forward of last year. Further, the supply is dependent upon availability of seed, impacts of pests, monsoon during the particular year as well as overall climatic conditions with total volume of rice being imported from India, exposing the fate of the company's operation to vagaries of nature. Any drastic increase in price of agro products in India as compared to Nepal, will have adverse effect on the profitability of company and any such prolonged differences in price can even put SATPL permanently out of business.

#### ***Fragmented and competitive nature of industry***

The trading industry as a whole is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of SATPL's product results in high competition from other players including traders. The Terai region in Nepal is the major paddy growing area with many rice mills operating in the region. Large-scale collectors, large millers, traders and wholesalers dominates the rice supply chain. Considering the fragmented and competitive nature of industry, the small medium sized traders have low pricing power over its products in the market. The pricing is mainly market driven and any such market price lower than the cost of procurement of rice to SATPL from India will hit the profitability of the company.

***Exposure to volatile interest rates and import duties***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Also, to promote the agriculture production within the country and discouraging the increasing import trends so as to protect the domestic industry, Government of Nepal (GoN) may increase the import tariff on rice and other agro products from time to time. Therefore, due to the funding from Bank and Financial Institutions to the company and the import duties levied on its agro products, SATPL is exposed to volatile interest rate and import duties.

**Key Rating Strengths*****Experienced promoters in the related field***

SATPL is promoted by related individuals involved from very long time in various trading and agro business sectors. The company is managed under the overall guidance of Mr. Shyam Sundar Roongta, who is the chairman of the company. Mr. Roongta has experiences of over 30 years in import business. He is also a director in Mahalaxmi Bikash Bank and a proprietor in Shree Durga Trade Concern dealing in sugar trading business.

***Improving profitability***

The profitability margin of the company continues to remain on lower side owing to the trading nature of business where the value addition is inherently low and highly competitive nature of industry. This apart, interest burden on working capital borrowing also dents the net profitability of the company. PBILDT margin has been improving during the above said period from 3.06% in FY18 to 3.50% in FY20 on account of change in product mix. Furthermore, PAT margin also improved in line in PBIDLT margin and stood at 1.08% in FY20.

***Diversified distribution network with locational advantage and established brands***

SATPL sells its agro products all over Nepal under the established and registered brands namely Ripuraj, Makhankhor, Jai Ho, Munnasahi, Newari, Muskan, Jimbu, Bhoj Special and Royal Tasty, and has a more than 400 whole-sellers and retailers spread across all major cities in the country which provides a ready market for its products. These sales are made through direct marketing to existing as well as new customers. SATPL has three other branch offices in Pokhara, Kathmandu and Bhairahawa to cater needs of its customers apart from its registered office in Birgunj. SATPL has four godowns adjacent to its branch and registered office. The offices and godowns located in Birgunj and Bhairahawa are within close proximity to Indian border which eases in the procurement and storage of imported agro-products. Birgunj and Bhairahawa are the big cities in Terai region whereas Pokhara and Kathmandu are the big cities in Hilly region, giving SATPL absolute locational advantage to cater and increase its distribution network.

***Rice being of high significant and a major Nepalese diet leading to stable demand***

Rice is the main staple food of Nepal. Rice in Nepal carries special cultural, religious and traditional values in the society. Rice is a preferred food for the almost entire population of the country. Rice ranks as the first among cereal crops in terms of area, production and livelihood of the people. Nepal has one of the highest per capita consumption of rice in the world. However, the productivity growth of rice in Nepal in last five decades has not able to catch up with the population growth rate during same period. This has led to the increasing trend of import of rice from the neighboring countries especially India. With the steady rising demand in market, import of rice business is flourishing in recent years.

**About the Company**

Sagarmatha Agro Trading Private Limited (SATPL) is a private company and was established in 2012 having registered office in Birgunj, Parsa. SATPL is engaged in procurement of rice and other agro-products like wheat, Koda millets etc. from India and selling such products all across Nepal with certain profit margin attached.

**Brief Financial Performance of SATPL during last 3 years ending FY20 is given below:**

(Rs. In Million)

For the year ended Mid July	FY18	FY19	FY20
	(Audited)		
Period of operation	12 months	12 months	12 months
Income from Operations	1,962	2,456	2,122
PBILDT Margin (%)	3.06	2.74	3.50
Overall Gearing (times)	3.44	3.43	1.30
Interest coverage (times)	1.48	1.65	1.76
Current Ratio (times)	1.19	1.18	1.45
Total Debt/ Gross Cash Accruals (times)	24.33	21.20	9.51

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**Annexure 1: Details of the Facilities rated**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Short Term Bank Facilities	Working Capital Loans	630.00	CARE-NP A4+
<b>Total</b>		<b>630.00</b>	