

Jay Shree Foods Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Long-term Bank Facilities	50.27	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short-term Bank Facilities	949.73	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	1,000.00 [Rs. One Thousand Million Only]		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' assigned to the long-term bank facilities and 'CARE-NP A3' assigned to the short-term bank facilities of Jay Shree Foods Private Limited (JFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of JFPL continues to derive strength from established track record of operations, resourceful promoters along with experienced management team in the related field, moderate financial risk profile of the company characterized by growing scale of operations and profitability, moderate gearing levels and debt service coverage indicators. The ratings also factor in moderate operating cycle, stable demand of rice products being Nepalese staple food, product diversification, established brand and marketing setup with locational advantage for raw materials. The ratings, however, are constrained by susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry and exposure to volatile interest rates.

The ability of company to manage growth in the operations while maintaining the profitability margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established and adequate track record of operations, resourceful promoters along with experienced management team in the related field

The promoters of JFPL have an experience of more than three decades in the food industry. JFPL is currently managed by Mr. Pawan Kumar Agrawal and Mrs. Suman Agrawal. Mr. Pawan Kumar Agrawal is associated with the company in the capacity of managing director. He has over three and half decades of experience in food industry. The management team is further supported by an experienced professionals across various functions/ departments. The promoters of the company have also been infusing funds into the company in the form of equity to fund the operational needs of the company on back of increasing operations of the company.

Established brand and marketing setup

The company sells its products under various registered brands established in Nepalese market. This provides leverage to the company in front of new players entering the industry. Over the period, the company has established various brands like Bhansaghar and Mangalam for its different products under the various categories.

JFPL sells its products all over Nepal and has more than 600 dealers / retailers base which spread across all major cities in the country. Furthermore, to support the marketing and sales, JFPL has its offices and godowns located at various parts of the country mainly in the Terai belt (Nepalgunj, Bhairahawa, Narayangarh, Birgunj and Biratnagar) thereby facilitating procurement of raw material with favourable pricing terms. Further, the processing unit of the company is

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

located nearby Indian border from where JFPL has been getting locational benefit for import of raw materials at lower transportation cost.

Moderate financial profile

Total operating income (TOI) of the company increased by ~18% during FY20 over FY19, majorly on account of increase in total quantity sold coupled with improvement in average price realization of its products. Also, during 9MFY21, JFPL has booked total revenue of Rs. 2,063 Mn. The company's profitability margins have been moderately low owing to the low value addition and intense market competition given the highly fragmented nature of the industry. However, PBILDT margin increased from 5.19% in FY19 to 5.91% in FY20 on account of economies of scale. As a result, net profit of the company also improved in FY20.

Total debt of the company declined from Rs. 599 Mn at the end of FY19 to Rs. 403 Mn at the end of FY20 which comprised of term debt of Rs. 70 Mn and working capital loans of Rs. 333 Mn. Overall gearing ratio of the company was moderate at 1.58x at the end of FY20 which improved from 2.89x at the end of FY19 due to increase in net worth coupled with reduction in total debts levels of the company due to scheduled repayment of loans and low utilization of working capital borrowings on the balance sheet date. Improving profitability margins has led to increase in GCA levels. Therefore, the interest coverage ratio of the company remained moderate and stood at 2.47x in FY20. Furthermore, the total debt/ Gross Cash Accruals also remained moderate at 5.76x in FY20.

Moderate operating cycle of the company

JFPL is operating a rice mill and the raw materials are procured both domestically and in the form of imports also. JFPL has to keep the inventory for smooth operations and extend credit to their customers, which lead to reliance on working capital borrowings. JFPL generally allows three months credit period to its customers and keeps inventory for around two-three months. The company receives a payable period of around a month from its suppliers and the average payable period was at 23 days in FY20. Entailing all, led to total operating cycle of the company at 67 days in FY20. The average utilization of fund-based working capital limit against drawing power was around 76% for 12 months ending mid-May, 2021.

Major Nepalese diet leading to stable demand

The demand prospect of rice industry has remained stable as rice is considered one of major diet of Nepalese population. Rice carries special cultural, religious and traditional values in Nepal. Furthermore, products such as beaten rice and puffed rice are considered staple diet in various parts of the country. Due to availability of products with varied packaging option ranging 1 kg to 30 kgs, JFPL has been able to attract both Business-to-Business (B2B) and Business-to-Customer (B2C) customer segment.

Key Rating Weaknesses

Susceptibility to price fluctuation of seasonal agro products

JFPL is engaged in processing of paddy and related products of rice. Prices of these products are highly volatile in nature and 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 and inventory carry forward of last year. Further, the supply is dependent upon availability of seed, impacts of pests, monsoon during the particular year and climatic condition, exposing the fate of the company's operation to vagaries of nature.

Fragmented and competitive nature of industry

Import and processing of rice is highly fragmented due to presence of several organised/ unorganised players owing to low entry barrier and low technology and capital requirement. Low product differentiation of JFPL's product results in high competition from other players including traders. Considering the fragmented and competitive nature of industry, the millers have low pricing power. Further, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

About the Company

JFPL is a private limited company established in 2009 for processing of paddy into rice, value addition by ageing of purchased rice and production of beaten rice, puffed rice and soya nuggets, having plant in Gaidakot, Nawalparasi, Nepal. JFPL deals in varieties of rice such as long grain rice, jeera rice and other products.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	1,913	2,244	2,648
PBILDT Margin (%)	5.05	5.19	5.91
Overall Gearing Ratio (times)	3.02	2.89	1.58
Interest Coverage (times)	1.86	1.83	2.47
Current Ratio (times)	1.19	1.07	1.11
Total Debt/Gross Cash Accruals (times)	13.88	13.09	5.76

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	50.27	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limits	841.50	CARE-NP A3
Short Term Bank Facilities (Proposed)	Fund Based Limits	98.23	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	10.00	CARE-NP A3
Total		1,000.00	

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About CARE Ratings Nepal Limited:

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