

Anamol Feeds Private Limited

Ratings

Instrument / Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	85.30	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	514.70	CARE-NP A4 [A Four]	Assigned
Total Facilities	600.00 [Rs. Six hundred Million Only]		

Details of instrument / facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the ratings of 'CARE-NP BB' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Anamol Feeds Private Limited (AFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AFPL are constrained by low profitability margins, leveraged capital structure and weak debt service indicators along with working capital-intensive nature of operations. The ratings also factor in stiff competition prevalent in feeds industry coupled with inherent risk involved and exposure to volatile raw materials price and interest rate.

The ratings, however, derive strength from the established track record of operations and experienced management, established brand and marketing network, locational advantages for import of its raw materials with adequate storage capacity and high growth prospect of the industry.

Going forward, the ability of the company to profitably scale up its operations, managing its working capital requirements to support growth in revenue while improving its capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Low profitability margins, leveraged capital structure and weak debt coverage indicators

The company's profitability margins have been historically on the lower side owing to low value addition and intense market competition in the industry. This apart, interest burden on working capital borrowing also dents the net profitability of the company. PBIDLT margin of the company has been showing improvement on y-o-y basis and stood at 8.28% in FY20. Though PBIDLT margin has been improving, PAT margin has been showing decline trend during the same period on account of increase in finance expenses. PAT of the company stood at Rs. 4 Mn for FY20.

AFPL's capital structure stood leveraged on account of high dependence on external borrowings to meet its working capital requirements. At the end of last 2 FYs (FY19 & FY20: FY refers to 12 months' period ended mid-July 2020), overall gearing of the company stood high and deteriorated to 3.01x in FY20 (FY19: 2.64x) on account of increase in short term borrowings during FY20.

Due to high debt levels and low gross cash accruals in FY20, the total debt/GCA remained high at 23.78x at end of FY20. Also, interest coverage ratio remained weak and stood at 1.44x as at end of FY20.

Working capital intensive nature of business

Though the total operating income of the company had decline by 6.3% in FY20 over previous year, the operating cycle elongated significantly by 32 days during the said period. Operations of the company are highly working capital intensive marked by an average operating cycle of around 210 days in FY20. The average inventory period remained high at

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

around 128 days during FY20, as the company holds stock of raw materials like Maize, Soya bean de-oiled cake, paddy and other agro products which are seasonal in nature and procurement is mainly in the form of imports. The company has to offer reasonable credit period to its customers attributed to its presence in highly competitive business and the average collection period remained at around 138 days during FY20. The high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of around ~94% against its month end drawing power during the last 12 months' period ended mid-May, 2021.

Concentrated business over poultry feeds and inherent risk of poultry business

Poultry being one of the largest sector in livestock farming, AFPL currently derives all its revenue from sale of feeds for Broilers and Layers. This has led to the concentration of business over poultry feeds and high reliance on its single product type i.e. Poultry Feed. However, AFPL is planning to add up cattle and fish feeds depending upon the future market demand. Meanwhile, Poultry business remains susceptible to inherent risk, such as diseases like Bird Flu which could impact sales of poultry feeds.

Foreign exchange fluctuation risk on imports and exposure to volatile interest rate

AFPL imports substantial portion of raw material such as grains, oil and oil cake, maize and paddy, and feed supplements from India, China and other third countries like Malaysia and European countries. The pricing of imported raw material like vitamins, enzyme, nutrients etc. from China and third countries is in USD through Letter of Credit. The company has not fully hedged its USD exposure which exposes it to the high risk associated with the fluctuation in foreign currency exchange 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.

Competitive nature of industry

The feed industry is highly competitive and fragmented with many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition. Due to the stiff competitive, the pricing of feeds remains volatile and also varies from place to place. Further, inherent risk such as perishable nature of product, constraints in transportation, cost of feeds, diseases affect poultry business. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feed sector.

Key Rating Strengths

Experienced promoters in the related field

AFPL has seven board of directors chaired by Mr. Jagan Natha Kandel, who has more than 15 years of experience in various sectors including feed and poultry sectors. The day to day operations are looked after by Mr. Shankar Prasad Kandel and is associated with the company on the capacity of managing director. He has more than 20 years of experience in different poultry companies.

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Established brand and marketing network

AFPL commenced its commercial operations in 2013 and has an established customer based network of more than 400 customers in FY20. AFPL sells its feed products under a two registered brand 'Ruchi Pellet' and 'Naulo Pellet' for its broiler feed and layers feeds packaging in 30-50 kg bags all across Nepal. The customers include both dealers (~80%) and retailers (~20%).

Locational advantage for import of raw materials with adequate storage capacity

AFPL has a factory/plant located in Bharatpur, Chitwan District of Nepal which lies adjacent to the Indian border providing locational advantage to AFPL for import of raw materials from India and third countries. AFPL has competitive advantage of its manufacturing operations near to Indian borders as raw materials is in form of imports. Also, the company has two godowns located in Kohalpur, Banke and Bardibas, Sarlahi, having storage capacity of 100 Metric Ton (MT) which provides company adequate storage caapcity.

High growth prospect of the industry

The poultry industry has seen mounting effect due to increase in demand driven by the rapidly changing food habits of the average Nepalese consumer favouring for white meat, dictated by the lifestyle changes in the urban and semi-urban regions of the country. Alongside with the demands for poultry products, the poultry feed industry is also expected to grow, accordingly, this kind of industry is relatively insulated from the economic cycle.

About the Company

Anamol Feeds Private Limited (AFPL) is a private company and was established in 2011 having registered office in Bharatpur, Chitwan, Nepal. AFPL is engaged in manufacturing poultry feeds, both broiler and layer feeds which include premixed feed, concentrated feed and compounded feed type; and distributing products within Nepal under two registered brand name 'Ruchi Pellet' and 'Naulo Pellet'. As on mid-April 2021, The company has an annual installed capacity of 30,000 MT.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. in Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	920	1,103	1,033
PBILD Margin (%)	7.15	7.83	8.28
Overall Gearing Ratio (times)	2.80	2.64	3.01
Interest Coverage (times)	1.48	1.53	1.44
Current Ratio (times)	1.69	1.43	1.22
Total Debt/ Gross Cash Accruals (times)	17.79	18.61	23.78

A: Audited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term loan	85.30	CARE-NP BB
Short Term Bank Facilities	Working Capital loans	514.70	CARE-NP A4
Total		600.00	

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About CARE Ratings Nepal Limited:

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