

Triveni Dal & Oil Industries Private Limited

Ratings

Facility	Amount (Rs. In Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	29.67 (Decreased from 46.75)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	590.33 (Increased from 570.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	620.00 (Six Hundred Twenty Million)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of Triveni Dal & Oil Industries Private Limited (TDOI).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of TDOI factors in its leveraged capital structure, high inventory holding leading to working capital intensive nature of operations, high reliance on imports leading to foreign exchange fluctuation risk. The ratings also factor in residual project execution and stabilisation risk associated with ongoing expansion project, fragmented and competitive nature of industry, susceptibility to price fluctuation of seasonal agro products, exposure to volatile interest rates and impact of COVID-19 on the business of the company. The ratings also took cognizance of fluctuations in profitability margins in the period under review (FY18-FY20).

The ratings, however, derive strength from established and long track record of operations along with strong promoters and experienced management team, growing scale of operations, moderate debt service coverage indicators, locational advantage and increasing demand outlook.

Going forward, ability of the company to profitable scale up its operations, manage its working capital requirements to support the growth in operations while improving its capital structure would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile marked by growth in total operating income, fluctuating profitability margins and leveraged capital structure

TDOI generates its revenue from sales of various pulses and the company reported total revenue of Rs. 1,303 Mn in FY20 with a growth of ~48% over FY19. The growth in revenue was mainly attributed to increase in quantity sold coupled with increase in average sales realization. During 11MFY21, the company has achieved net sales of Rs. 1,357 Mn.

Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is exposed to fluctuation in prices as well as availability of agriculture commodities. Furthermore, the profitability margins also depend on the product mix sold during the respective year. Despite increase in total operating income in FY20, PBILDT of the company decreased by 10% over FY19 and PBIDLT margin stood at 9.36%. Also in line with PBIDLT margin, PAT margin also declined. Though profitability margins declined, it continued to remain at moderate levels.

Company's capital structure stood leveraged due to high dependence on external borrowings to meet its working capital requirements. The overall gearing ratio stood high at 2.84x at the end of FY20 and shown marginal deterioration

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

on account of additional in term loans taken for ongoing capex program. Interest coverage ratio and Total Debt to GCA stood moderate at 3.18x and 11.31x in FY20.

High Inventory holding leading to working capital intensive nature of operations

The operations of the company are highly working capital intensive marked by an average operating cycle of 205 days for FY20, primarily on account of the high inventory holding. Being a trading and processing company, the company is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply for uninterrupted processing operations, the average inventory period remained high at around 160 days during FY19 and FY20. Furthermore, raw material of the company is also seasonal (being an agro community) for which the company builds up raw material inventory to cater to the processing of throughout the year resulting into high inventory holding. The collection period of the company remains at a level of 2 months, whereas the procurement of raw materials is generally done against advances resulted low creditors days. All this leads to highly working capital-intensive nature of operations which resulted in a high average utilization of around 90% of its drawing power working capital limits for last months period ended mid-June 2021.

Susceptibility to price fluctuation of seasonal agro products

TDOI is engaged in imports and processing of pulses primarily Masoor Dal (Red Lentils), Yellow Peas and Green Peas. Being agro commodity, prices of pulses are volatile in nature as production is 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 monsoon during the particular year as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

Fragmented and competitive nature of industry

Import and processing of pulses is highly competitive due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Further, low product differentiation of TDOI'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.

High reliance on import and foreign exchange fluctuation risk on such imports

TDOI's business operations are dependent on the imports as company's revenue is mainly driven by importing of raw material. Being significant purchases are in the form of imports, the company is exposed to unfavorable changes in the government policy towards imports and also from the exporting countries.

With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company's profitability margins are exposed to volatility in foreign exchange. However, the company has a policy of hedging partial of its import payments which still exposes the company to any sharp depreciation in the value of rupee (Indian & Nepalese) for the uncovered portion.

Key Rating Strengths

Established and long track record of operations along with strong promoters and experienced management team

TDOI has an operational track record of over two and half decades and derives strength from its strong promoter group. Majority of shareholding (around 75%) is held by individuals belonging to the Sanghai family brothers. The group has its presence in diversified business viz. banking, insurance, manufacturing, trading etc. The promoters of company have an experience of over two decades in trading of imported and processed pulses.

The company is managed under the overall guidance of its two member Board of Directors (BoD) who possesses wide experience in the related field. The company is chaired by Mr. Birendra Kumar Sanghai who is involved in various business of the Group. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of TDOI.

Locational advantage

The company's plant is located in Chattapipra, Bara district of Nepal. The raw materials are transported by rail from the Indian port to the Raxaul Boarder of India which is ~12 kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border which provides TDOI an advantage of supply of raw material at lower transportation cost.

Demand outlook of the products

Demand of pulses has been rising in Nepal with pulses being part of staple food of Nepal. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal giving importers like TDOI a favourable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

About the Company

Triveni Dal & Oil Industries Pvt. Ltd. (TDOI) is a private limited company incorporated on March 10, 1995 to process, import and export various kinds of pulses & grains. TDOI is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 18,000 Metric Ton Per Annum.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Income from Operations	566	878	1,303
PBILDT Margin (%)	(3.67)	15.50	9.36
Overall Gearing (times)	2.78	2.68	2.84
Interest Coverage (times)	(0.82)	4.14	3.18
Current Ratio (times)	1.30	1.36	1.39
Total Debt/ Gross Cash Accruals (times)	(7.08)	6.49	11.31

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	29.67	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loans	240.33	CARE-NP A4+
Short Term Bank Facilities	Non-Funded Loans	350.00	CARE-NP A4+
Total		620.00	

Contact Us

Analyst

Mr. Nibesh Manandhar
+977-01-4012629
nibesh.manandhar@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.