

## Maa Durga Foods Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
<b>Long Term Bank Facilities</b>	<b>183.00</b>	<b>CARE-NP BB- [Double B Minus]</b>	<b>Assigned</b>
<b>Short Term Bank Facilities</b>	<b>917.00</b>	<b>CARE-NP A4 [A Four]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>1,100.00 [One Thousand One Hundred Million only]</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Maa Durga Foods Private Limited (MDF).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of MDF are constrained by below average financial profile marked by declining profitability levels, leveraged capital structure and weak debt service coverage indicators of the company. The ratings are further constrained by elongated operating cycle, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, exposure to regulatory risk and volatile interest rates.

The ratings, however, derive strength from experienced promoters and management team, growing sales of the company, major Nepalese diet leading to stable demand, product diversification.

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 Weaknesses

##### Leveraged capital structure and weak debt service coverage indicators

The company has leveraged capital structure on account of high dependency on bank borrowing to meet its working capital requirements. As on mid-July 2021, the overall gearing stood high at 3.83x and showing an improvement from overall gearing of 4.30x on the previous balance sheet date. The improvement was on account of scheduled repayments of its term loans. Also, networth of the company improved due to accretion of profit. On account of high debt levels and declining profitability margins, debt service coverage indicators stood weak marked by the interest coverage ratio and total debt/ Gross Cash Accruals of 1.19x and above 70x respectively in FY21 (based on provisional results; FY refers to 12 months period ended mid-July).

##### Elongated operating cycle

The operations of the company are highly working capital intensive marked by an average operating cycle of approximately 336 days for FY21, primarily on account of the high inventory holding period. MDF procures wheat directly from commission agents, farmers during the respective harvesting season, store them for smooth running of its production processes for the entire year, and thereafter sell it during the year. The operations of the company are such that it is required to maintain high inventory holdings making it working capital intensive. Also, MDF allows 4-5 months credit period to its customers.

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

These factors lead to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against drawing power was around 85% for 12 months ending mid-July, 2021.

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

MDF deals in various wheat products. Prices of these products are 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. Furthermore, the supply is dependent upon availability of seed, impacts of pests, 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**

The flour-milling industry 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 MDF'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. Furthermore, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

#### **Exposure to regulatory risk**

Change in government policies, either domestic or international is likely to affect the company's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers. Earlier, before FY19, sales of refined flour (maida) products used to get 25 percent VAT refund at the end of the fiscal year. But the budget announcement for 2018-19 scrapped the provision. Also, from FY20, sales of aata were brought into VAT bracket. The changing regulation has large impact on the profitability of the company.

#### **Key Rating Strengths**

##### **Experienced promoters and management team**

The promoters of MDF have an experience of over a decade in diversified industries. MDF is managed under the overall guidance of its four-member Board of Directors (BoD) which includes experienced businessmen/industrialist with wide experience in the manufacturing and trading sector. Mr. Anoj Rungta, chairman, has over a decade of experience and been associated with the company from last 5 years. He looks after the overall operations of the company. Mr. Vishal Patwari, director has an experience of two decades in the various industry.

##### **Major Nepalese diet leading to stable demand**

The demand prospect of wheat industry has remained stable as wheat products are considered one of major diet of Nepalese appetite. Wheat products carry special cultural, religious and traditional values in Nepal. Due to availability of its products with varied packaging option ranging 1 kg to 50 kgs, MDF has been able to attract both Business-to-Business (B2B) and Business-to- Customer (B2C) customer segment.

##### **Product diversification and own brand**

MDF sells its various products being chakki aata, choker, maida, suji and other aligned products under the brand name "Anmol" primarily in eastern and central part of the country. The company's established brand presence ensures customer loyalty and aid in the differentiation of products with the competitors thereby, reducing the impact of competition induced volatility in prices over the years. All these products are staple diet of every Nepalese household.

##### **Growing scale of operations though declining profitability**

For the period FY19-FY21, MDF's total operating income grew from Rs. 676 Mn to Rs. 968 Mn reflecting a compounded annual growth rate of around 20%. Despite the growth in total operating income, PBILDT as well as PBILDT margin declined in FY21. During FY21, on account of fluctuations in the prices of its raw material, PBIDLT margin of the company declined. Though PBILDT margin declined, it continued to remain at moderate level. Decline in PBIDLT, net profitability of the company also declined.

## About the Company

Maa Durga Foods Private Limited (MDF) is a private limited company incorporated in 2014. The company has 2 manufacturing plants at Lipanibirta, Parsa, Nepal with total processing capacity of 240 MTPD for maida plant and 80 MTPD for chakki aata plant as on mid-July, 2021. The company is into processing of wheat and the main product of the company are wheat flour (atta), refined flour (maida), suji, and other aligned products

## Financial Performance

(Rs. In Mn)

Particulars	FY19	FY20	FY21
	(12m, A)	(12m, A)	(12m, A)
<b>Income from Operations</b>	<b>676</b>	<b>797</b>	<b>968</b>
<b>PBILDT Margin (%)</b>	<b>16.53</b>	<b>14.69</b>	<b>9.06</b>
<b>Overall Gearing (times)</b>	<b>4.08</b>	<b>4.30</b>	<b>3.83</b>
<b>Interest Coverage (times)</b>	<b>1.37</b>	<b>1.45</b>	<b>1.19</b>
<b>Current Ratio (times)</b>	<b>1.27</b>	<b>1.21</b>	<b>1.12</b>
<b>Total Debt/Gross Cash Accruals (times)</b>	<b>29.65</b>	<b>27.66</b>	<b>70.35</b>

A: Audited, UA: Unaudited

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	Term Loan	183.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	825.00	CARE-NP A4
Short Term Bank Facilities (Proposed)	Fund Based Limits	91.70	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	0.30	CARE-NP A4
<b>Total</b>		<b>1,100.00</b>	

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### About CARE Ratings Nepal Limited:

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