

Asian Feeds Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	NIL (Decreased from 1.80 Mn)	-	Withdrawn
Short Term Bank Facilities	504.67 (Increased from Rs. 490 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Total Bank Facilities	504.67 (Increased from Rs. 491.80 Mn)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has withdrawn ratings assigned to the long term bank facilities of Asian Feeds Private Limited as the company paid the loan in full and there is no amount outstanding under the facilities and reaffirmed the rating of 'CARE-NP A4' assigned to the short term bank facilities of the company.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Asian Feeds Private Limited continues to be constrained by leveraged capital structure, working capital intensive nature of the business, exposure to raw material price volatility and inherent risk associated with poultry business, stiff competition from other players in feed industry and exposure to volatile interest rate. The reaffirmation of short-term rating also took cognizance of fluctuating scale of operating with declining profitability margins on y-o-y basis.

The rating, however, continues to drive strength from experienced board members of the company, established dealer network and favorable prospects of the industry.

Going forward, the ability of the company to profitably scale up the operations and rationalize its debt levels with managing its working capital requirement to support growth will be key rating sensitivities. Any change in the regulatory framework pertaining to trade regulations and tariff differential with India impacting exports prospects will also act key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working Capital Intensive nature of the business

The operations of the company are working capital intensive marked by elongated working capital cycle of ~188 days in FY21 (Unaudited, FY refers to 12 months' period ended mid-July 2021) with average working capital borrowings utilization against drawing power of ~95% for last 12 months ended mid-July 2021. Due to seasonal availability of raw material (being agro commodity) coupled with major portion of raw material being imported having high lead time, the company is required to maintain high inventory levels. Consequently, average inventory days remained high at 84 days in FY21 compared to 106 days in FY20. The inventory days improved in FY21 on account better management of inventory levels which was exceptionally high in FY20 due to lockdowns resulting into interrupted sales volume. Furthermore, due to intense competition in the market AFPL provided higher credit period to its customers. The average collection period remained high at ~152 days and the average payable period is around 48 days for FY21. All this led to high operating cycle and high dependence on external borrowings.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Below averages financial risk profile

Company's total operating income has been fluctuating over the past three years (FY19-FY21). TOI has registered a decline on y-o-y basis in FY20 and registers a growth in FY21. The main reason for decline in TOI in FY20 was due to lockdown imposed on account of Covid-19. However, TOI of the company increased by 5% to Rs. 1,334 Mn in FY21 mainly due to increase in quantity sold of cattle feeds and broiler feeds. Furthermore, PBILDT margin declined during the same period from 7.21% in FY19 to 6.30% in FY21 on account of increase in raw material & other costs and the company's limited power to pass on the same to its customers.

The capital structure of the company stood leveraged with overall gearing of 2.23x as on mid-July 2021 and showing an improvement from 3.48x over previous balance sheet date. Total debt of AFPL comprise of working capital loans of Rs. 505 Mn at the end of FY21. The overall gearing improved on account of repayment of term loan and lower utilization of working capital borrowings (short term loans) coupled with equity infusion and retention of profits leading to increase in net-worth base. Though overall gearing improved, it continued to remain leveraged. The debt service coverage indicators stood moderate marked by Interest coverage of 2.19x and modest Total Debt to GCA of 13.83x for FY21.

Exposure to raw material price volatility including its availability

Agro-based industry is characterized by its seasonality availability, as it is dependent on the availability of raw materials, which further varies with different harvesting periods. Availability and prices of agro commodities are highly dependent on the climatic conditions. Adverse climatic conditions can affect their availability and lead to volatility in raw material prices. Since there is always time lag between raw material procurement and liquidation of inventory, the company is exposed to the risk of adverse price movement resulting in lower realization than expected. Furthermore, the change in consumer feed price is decided by Nepal Dana Udyog Sangh limiting market player's ability to pass the increased cost of raw materials to final consumer leading to have an impact on profitability.

Inherent risk of poultry business

AFPL derives revenue from sale of feeds for cattle, broilers, pig, layers etc. Among them broilers feeds and layers feeds contributed major portion of sales revenue. During FY21, ~86% of total sales revenue was generated from broilers feeds (FY20: ~84%) followed by ~9% from layers feeds (FY20: ~12%). Poultry business remains susceptible to inherent risk, such as diseases like bird flu which could impact sales of poultry feeds.

Stiff competition from other players in feeds industry coupled with inherent risk involved

The Poultry feed industry is characterized by a highly competitive environment mainly due to presence of a large number of players in the unorganized segment. This is primarily because of low entry barriers and limited value addition. As a result, the players in the industry have low margins. Consequently, the company faces intense competition from both organized and unorganized players, which limits the pricing flexibility of the company. Further, inherent risk such as perishable nature of product, constraints in transportation, diseases, sensitive for storage may affect feeds industry. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feeds industry.

Key Rating Strength**Established and long track record of operations along with experienced promoters**

AFPL has an operational track record of ~11 years with an established market for its products. AFPL has 5 board of directors chaired by Mr. Bashu Dev Joshi, who manages trade, finance and administration department of the company and has ~2 decades of experience in different businesses. Mr. Suresh Lohani, director, is engaged in IT business since more than ~2 decades and also manages inventory and production department. Mr. Devi Prasad Gautam, director, has been engaged in poultry feeds trading business for more than a decade and looks after sales and marketing department. The board of director is further supported by experienced management team.

Established dealer network

AFPL commenced its operations in 2011 and has established dealer network of 257 dealers in FY21 (251 dealers in FY20). Contract with dealers are normally on annual renewal basis AFPL provides incentives (such as trade discount and credits) to large dealers based on company's policy. Sales are mostly made to dealers on credit basis which in most cases is backed by bank guarantee.

Growth prospect of the industry

As per the report published by ministry of agriculture and livestock development, production of meat and eggs are in increasing trend. Poultry feeds (mainly Broilers and Layers) and cattle feeds being major business segment of AFPL and increasing trend of meat and egg industry is likely to benefit feed industry players like AFPL. Poultry feed is given to chicken as a better substitute of traditional feeds (i.e. oil cakes, cereals etc.) and in view of the expected rise in consumption of chicken meat and eggs, poultry farming is expected to grow which indicates high growth potential for feeds industry. Besides this, commercial farming of livestock (Cattle, Pig, Goat, Fish etc.) is also growing in Nepal and also accounts for large part of the regional agricultural activity. Also, the Government of Nepal has listed livestock feeds as essential goods to ease the hardness faced by the feed industry during Covid-19 lockdown and restrictions.

About the Company

Asian Feeds Private Limited (AFPL) was incorporated on September 29, 2011 as private limited company and is promoted by individual promoters. The manufacturing process of AFPL is ISO 9001:2008 certified. Its registered office is located in Kathmandu, Nepal and the plant is located at Budiganga Rural Municipality, Morang, Nepal. The company is into manufacturing poultry and other livestock feed.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Total Operating Income	1,311	1,272	1,336
PBILDT Margin (%)	7.21	7.06	6.30
Overall Gearing Ratio (times)	2.25	3.48	2.23
Interest Coverage (times)	2.09	1.64	2.19
Current Ratio (times)	1.14	1.12	1.20
Total Debt/ Gross Cash Accruals (times)	10.53	27.93	13.83

A: Audited; UA: Unaudited

Annexure-1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facilities	Amount (Rs. in Mn)	Ratings
Short Term Bank Facilities	Working Capital Loans	504.67	CARE-NP A4
Total		504.67	

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