

Nepal Wellhope Agri Tech Private Limited

Rating

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long-Term Bank Facilities	201.25	CARE-NP BBB- [Triple B Minus]	Assigned
Short-Term Bank Facilities	1,158.75	CARE-NP A3 [A Three]	Assigned
Total Facilities	1,360.00 (One thousand Three Hundred and Sixty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BBB-' to the long term bank facilities and 'CARE-NP A3' to the short term bank facilities of Nepal Wellhope Agri Tech Private Limited (NWPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NWPL factor in strengths from its long established track record of operations coupled with experienced promoters in the related field along with established brand and marketing network. The ratings also factor in locational advantage in importing raw materials, adequate storage capacity, increasing capacity utilization with support from well-established promoters as well as growing demand scenario. The ratings also take comfort from NWPL's moderate financial risk profile characterized by growing scale of operations, moderate capital structure and debt service indicators.

The ratings, however, are constrained by working capital intensive nature of operations leading to increased funding requirement, exposure to the volatility in the raw material prices and volatile interest rates and project implementation risk related to the ongoing capex. The ratings also take note of company's presence in the competitive nature of the feed industry, exposure to regulatory risk and foreign exchange fluctuation risk associated with procurement of raw materials.

Going forward, the ability of the company to manage the growth in the operations while maintaining the profit 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 track record of operations along with experienced and resourceful promoters in the related field

NWPL has an established operational track record of more than 15 years in the Nepalese market for manufacturing poultry feeds and other live-stock feeds. The company is promoted by two established business groups namely Vaidya Group holding 50% shareholding and Wellhope group holding the remaining stake. Vaidya Group of Nepal has presence in different sectors like manufacturing, trading, construction, service, information and communication technology and education. Similarly, China based Wellhope Foods Co Ltd (LWL) is involved in animal feeds and allied products which are marketed in 32 provinces across China and 22 different countries globally. Mr. Suresh Vaidya, Chairman of NWPL, has more than 12 years of working experiences in the animal feed business. The other two directors Mr. Zhang Zianbo and Mr. Xiao Huapei are the representative directors from LWL. Furthermore, being in the same line of business as LWL, NWPL has access to the long-established expertise and the innovative capabilities of LWL in the animal feed business, which can help NWPL establish as a major player in the animal feed industry in the country.

Established brand presence with wide geographic marketing network

NWPL commenced its operation in 2005 and has an established customer based distribution network of more than 600 customers comprising of wholesalers and retailers spread across the country. NWPL sells its feeds products under a single

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

registered brand 'Vijaya Pellet Dana' for its varieties of feeds including broiler feed, layers feeds, giriraj feed, parent feed, fish feed, cattle feed and pig feeds packaging in 30-50 kg bags.

Locational advantages for import of raw materials with adequate storage capacity

NWPL has three factories/plants located in Bharatpur (Chitwan District), Biratnagar (Morang District) and Kohalpur (Banke District). All the factories are located in Terai region of Nepal with close proximity to Indian borders which provides locational advantage to NWPL in terms of savings in freight cost for imported materials. NWPL imports agricultural raw materials majorly from India followed by the United States and the Netherlands whereas raw materials like vitamins, nutrients, medicines, enzyme etc. are imported from China. For storage of raw materials and finished goods, NWPL has nine storage facilities in the form of six silos and three godowns, conveniently located across the country.

Financial risk profile marked by steady revenue growth and adequate debt service coverage indicators

NWPL derives its revenues from sale of poultry feeds (Broiler, Layers and Giriraj Feeds), livestock feeds (Pig and Goat), breeder feeds and fish feeds. During FY21, total revenue of NWPL grew 23.20% year on year to Rs. 4,271 Mn, mainly on account of surge in sales volume amid increasing demand. However, the PBILDT Margin declined slightly to 7.34% in FY21 compared to 8.01% in FY20 on account of increased input prices. NWPL reported the net profit of Rs. 102 Mn in FY21 (FY20: Rs. 110 Mn). Furthermore, debt equity ratio of the company remained comfortable at 0.24x at the end of FY21 (FY20: 0.13x). The moderation in debt to equity ratio was on account of increase in long term loans by Rs. 100 Mn in FY21 for capex. Overall gearing ratio of the company was moderate at 1.48x at the end of FY21 and mostly remained stable over previous balance sheet date. Interest coverage ratio of the company remained adequate at 3.04x during FY21 although declined from 3.95x during FY20 on account of increased interest outlay amid higher debt levels.

High growth prospect of the industry

As per the National Economic Survey 2020/21, the production of meat has increased by 54.6 percent to 552,000 metric tons in FY20. Poultry feeds (mainly Broilers and Layers) being major business segment of NWPL (contributed more than 88.58% of total sales in FY21) and increasing trend of meat and egg industry is likely to benefit feed industry players like NWPL. 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 and eggs, poultry farming is expected to grow which indicates high growth potential for feeds industry.

Key Rating Weaknesses

Working capital intensive nature of operation

Feed business requires to maintain adequate inventory of raw material and finished goods to avoid stock-outs. Furthermore, since the availability of raw material is seasonal, being monsoon sensitive, and major portion of raw material has to be imported from India and China, it is critical for the company to maintain adequate levels of inventory. Consequently NWPL's operations remain working capital intensive with net operating cycle of 65 days in FY21 as compared to 61 days in FY20. Comparatively high gross operating cycle (around 102 days in FY21) leads to reliance of the company on bank funding for meeting its working capital needs. The average working capital utilization of the company was around 80%.

Project implementation risk related to ongoing capex

NWPL plans to enhance its factory in Biratnagar to full automation and expand its capacity to 15TPH (tonne per hour). Total estimated cost of the capex is around Rs. 580 Mn, which is being funded from term loans of around Rs. 420 Mn and remaining from cash accruals. Around 80% of the capex was incurred as on mid-April 2022 and is expected to be completed by January 2023. With the added capacity, the company's ability to optimally utilize its total installed capacity hinges on its ability to cater to the increased demand for animal feeds, driven mainly from the increased meat consumption trend in the country. However, the animal

feed industry remains fragmented and highly competitive. The ability of the company to complete the capex within the projected timelines and quickly stabilize operations thereafter will remain a key monitorable.

Exposure to foreign exchange fluctuation risk and raw material price volatility risk

Grains (which mainly include Maize, Paddy and Pulses) and Oil Cake (which mainly include Soya Cake, Soya Oil and Mustard DOC) are the major raw materials of NWPL which contribute around 80 to 85 % of total raw material cost of the company. NWPL has not entered into long term contracts with suppliers of raw material ensuing the company towards the exposure of risk associated with volatility in price and timely availability of raw materials. Additionally, NWPL has limited ability to pass the increased cost of raw material to consumers as change in feeds price is decided by Nepal Dana Udyog Sangh which is followed by all feeds companies, resulting likelihood of impacting its profitability. Furthermore, the company is also exposed to foreign exchange rate fluctuation risk as a substantial portion of the procurement is in foreign currency and sales realization is majorly in domestic currency.

Concentration of business over poultry feeds and inherent risk of poultry business

NWPL derives revenue from sale of feeds for Cattle, Broilers, Pig, Fish, Layers and Giriraj. Among them Broilers Feeds and Layers Feeds contributed around 75% and 15% of total revenue, respectively was generated from Broilers Feeds followed by ~15% from Layers Feeds. Poultry business remains susceptible to inherent risk, such as diseases like Bird Flu which could impact sales of poultry feeds. Furthermore, the Poultry feed industry is intensely competitive and fragmented with the presence of many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition.

Exposure to volatile interest rate

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

About the Company

Nepal Wellhope Agri Tech Private Limited (NWPL), incorporated on December 12, 2005, is a joint venture company between Vaidya Group of Nepal and Wellhope Foods Co Ltd (formerly Liaoning Wellhope Agritech Limited), a China based company, to manufacture poultry feeds and other live- stock feeds. The company has its presence across all major places in Nepal through its network of around 600 dealers. NWPL is engaged in producing poultry Feeds (Broiler and Layers Feeds) and other livestock feeds like Fish Feeds, Pig Feeds, Giriraj Feeds and Goat Feeds which include premixed feed, concentrated feed and compound feed type; and distributing products within Nepal under single registered brand name 'Vijaya Pellet Dana'. The company has its production facilities at Chitwan, Biratnagar and Nepalgunj.

Financial Performance

Particulars	2019 (12m, A)	2020 (12m, A)	2021 (12m, A)
Income from operations	3,241	3,467	4,271
PBILDT Margin (%)	7.62	8.01	7.34
Overall Gearing (times)	1.12	1.42	1.48
Interest coverage (times)	3.48	3.95	3.04
Current Ratio (times)	1.00	0.90	1.04
Total Debt to Gross Cash Accruals (times)	4.70	5.95	7.17

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	201.25	CARE-NP BBB- [Triple B Minus]
Short Term Bank Facilities	Fund Based Limit	658.75	CARE-NP A3 [A Three]
Short Term Bank Facilities	Non-Fund Based Limit	500.00	CARE-NP A3 [A Three]
Total Facilities		1,360.00	

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