

Shivam Agro Industries Private Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities- Working Capital Loan	1000.00 (increased from 750.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term Bank Facilities- Term Loan	91.76	CARE-NP BB [Double B]	Assigned
Total Facilities	1091.76 (increased from 750.00)		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long-term bank facilities of Shivam Agro Industries Private Limited (SAIPL). CRNL has also reaffirmed the rating of CARE-NP A4+ to the short-term bank facilities of SAIPL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to SAIPL continue to be constrained by leveraged capital structure and modest debt coverage indicators, elongated operating cycle resulting in working capital intensive nature of business, susceptibility to price fluctuation for seasonal agro products, fragmented and competitive nature of industry, and relatively small scale of operations with single product. The ratings, however, derive strength from presence of experienced promoters with established track record of operation, stable demand scenario for SAIPL's products, growing marketing setup with locational advantage for raw materials and rebound in financial performance during H1FY22 (Unaudited, refers to the six-month period ended mid-January 2022). Going forward, the ability of SAIPL to manage growth in the operations while maintaining 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 Weaknesses

Financial risk profile marked by moderate gearing levels and modest debt service coverage indicators

The capital structure of the company remained leveraged, albeit improved slightly to 2.76x at the end of FY21 from 2.90x at the end of FY20 aided by equity infusion of Rs. 25.20 Mn at the end of FY21. The company has leveraged capital structure on account of high dependence of bank borrowings to meet its working capital requirements. SAIPL's interest coverage ratio remained modest at 1.31x during both FY21 and FY20. Similarly total debt/ GCA of the company was high at 39.05x during FY21 which deteriorated slightly from 35.05x during FY20 due to marginal decrease in GCA to Rs. 20 Mn in FY21 from Rs. 21 Mn in FY20 amid sluggish operational performance leading to subdued profitability coupled with increased debt levels.

Highly elongated operating cycle resulting to working capital intensive nature of business

SAIPL is involved in processing of raw paddy/semi-finished rice into rice ready for consumption by procuring raw materials both locally and by importing from India. The operations of the company are working capital intensive in nature due to long operating cycle. SAIPL's operating cycle is in increasing trend in the past 3 years. In FY21, the operating cycle increased to 340 days (289 days in FY20 & 260 days in FY19) due to increase in average inventory holdings to 247 days (228 days in FY20 & 209 days in FY19) coupled with increase in average collection period to 116 days (85 days in FY20 & 80 days in FY19).

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

Inventory holding period is high due to seasonal nature of paddy production, due to which SAIPL needs to maintain inventory for at least 6-7 months. Likewise, average collection period increased as the company extended credit to customers amid the covid-19 pandemic. An elongated operating cycle leads to increased reliance of the company on the bank finance for meeting its working capital needs.

Susceptibility to price fluctuation of seasonal agro products

In Nepal, paddy is planted with onset of monsoon between June and August and harvested between September and November. The planting and production of the crop is dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile as production and prices depend upon various factors like area under production, yield for the year, demand-supply scenario and inventory carry forward of last year among others. 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

Import and processing of rice is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of SAIPL's product results in high competition from other players. Large-scale traders, millers and wholesalers dominate the rice supply chain. Considering the fragmented and competitive nature of industry, the millers have low pricing power. The pricing is market driven and Government of Nepal has not yet provided any minimum support pricing for the rice industry.

Relatively modest scale of operations with single product

Despite presence of eight years in the market, SAIPL has been operating in a relatively small scale. Total operating income of the company was Rs. 1,085 Mn in FY21, which decreased from Rs. 1,241 Mn in FY20. Profitability has remained modest with PAT margin of 0.99% in FY21 compared to 0.97% in FY20. The modest size restricts financial flexibility in times of stress and deprives the company from benefits of economies of scale. Furthermore, the company has only one product type i.e., rice. Considering the fragmented industry and the seasonal nature of raw material coupled with working capital-intensive nature of business, a slight variation may adversely impact the company's operations and financial health.

Key Rating Strengths

Established track record of operations coupled with experienced promoters in the related field

SAIPL commenced its operations in 2012 and has around eight years of track record in the agro industry. SAIPL along with its sister concerns, collectively known as Shivam Organization, is engaged in rice processing, pulse processing, cattle feed and poultry feed production, soya nugget production, import of spices, dry fruits and agro commodities. Mr. Shivajee Prasad Shah Kalwar, Chairman, is a committee member of Birgunj Chamber of Commerce and has led the Rice, Oil and Pulses Association of Birgunj. Mr. Pramod Kumar Shah, managing director, has been looking after the rice business of SAIPL since its inception.

Growing marketing setup with locational advantage for raw materials

SAIPL sells its products all over Nepal and has a customer base of more than 200 wholesalers spread across all major cities in the country. SAIPL has its factory and 4 godowns located in Parsa District within close proximity of the Indian boarder

which eases procurement and storage of raw materials. The company has also set up three marketing offices in Kathmandu, Pokhara and Jiri to effectively market its products.

Improved financial performance during H1FY22 after a subdued FY21 amid the pandemic

The company's revenues had increased at a CAGR of around 25% in the four year period ended FY20. However, amid the impact of the pandemic, revenues had declined by 13% year on year in FY21 majorly on account of decrease in sales of premium rice brands. This led to a decline in PBILDT of the company by 23% in FY21. However, revenues have rebounded in H1FY22 to Rs. 750 Mn (FY21: Rs. 1,085 Mn) boosted by higher sales of premium brands. The ability of SAIPL to profitably scale up the operations will be important from credit perspective.

Stable demand outlook rice being a major Nepalese staple food

Rice is a preferred staple food for majority of Nepalese. It ranks first among all the cereal crops in terms of acreage area, production and consumption. Rice also has a cultural significance and with growing population, its consumption is also expected to increase, thereby leading to a stable demand outlook over the medium-long term.

About the Company

Shivam Agro Industries Private Limited (SAIPL) is a private limited company, incorporated on July 24, 2012. It is promoted by individual promoters having long experiences in Nepalese Agro industry. SAIPL's operations involve processing of paddy into rice having a fully automated rice mill plant in Parsa, Birgunj, Nepal. SAIPL's products include short grain rice and long grain rice in 7 different registered brands names with packaging ranging from 5kg to 30kg.

Brief financial performance of SAIPL during the past 3 years are given below:

(Rs. Million)

For the year ended Mid-July	FY19 (Audited)	FY20 (Audited)	FY21 (Audited)
Income from Operations	943	1,241	1,085
PBILDT Margin (%)	8.67	8.32	7.32
Overall Gearing (times)	2.56	2.90	2.64
Interest Coverage (times)	1.30	1.30	1.31
Total Debt/Gross Cash Accruals (times)	36.09	35.05	37.34
Current Ratio (times)	1.21	1.17	1.20

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Short Term Bank Facilities	Working Capital Loan	1,000.00	CARE-NP A4+
Long Term Bank Facilities	Term Loan	91.76	CARE-NP BB
Total		1,091.76	

Contact us

Analyst Contact

Mr. Prashiddha Sharma Gaire
Contact No.: +977 9802335865
Email: prashiddhas@careratingsnepal.com

Mr. Santosh Pudasaini
Contact No.: +977 9802312855
Email: santosh.pudasaini@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

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