

Anamol Feeds Private Limited

Ratings

| Facility | Amount (Rs. In Million) | Rating ¹ | Rating Action |
|----------------------------|--|------------------------------|-------------------|
| Long Term Bank Facilities | 108.00 (Increased from 85.30) | CARE-NP BB [Double B] | Reaffirmed |
| Short Term Bank Facilities | 781.13 (Increased from 514.70) | CARE-NP A4 [A Four] | Reaffirmed |
| Total Facilities | 889.13 (Increased from 600.00) | | |

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities and the rating of 'CARE-NP A4' assigned to the short term bank facilities of Anamol Feeds Private Limited (AFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AFPL continue to be constrained by its below average financial risk profile marked by low profitability margins, leveraged capital structure and weak debt service coverage indicators along with working capital-intensive nature of operations. The ratings also factor in stiff competition prevalent in feeds industry coupled with inherent risk involved in the poultry business, and exposure to volatile raw materials price and interest rates. The ratings, however, continue to derive strength from the established track record of operations and experienced management, established brand and marketing network, locational advantage for import of raw materials with adequate storage capacity and stable growth prospect of the industry over the medium term.

Going forward, the ability of the company to profitably scale up its operations, managing its working capital requirements to support growth in revenue while improving its capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile marked by low profitability margins, leveraged capital structure and weak debt coverage indicators

The total income of AFPL declined by 14.37% year on year to Rs. 885 Mn in FY21 (Audited, refers to the twelve month period ended mid-July, 2021) from Rs. 1,033 Mn in FY20, after a steady growth with a Compounded Annual Growth Rate of around 5% during the previous four years ending FY20. The decline in total revenue in FY21 was due to average lower price realizations. Quantity sold remained stable at 18,756 MT during FY21 compared to 18,347 MT during FY20.

PBILD Margin remained steady around 8% during FY20 and FY21. The company, however, reported substantial growth in net profit with PAT of Rs. 41 Mn in FY21 as compared to Rs. 4 Mn in FY20, aided by gain on sale of its fixed assets contributing Rs. 54 Mn to non-operational income.

Furthermore, the capital structure of AFPL remained leveraged, albeit Debt-Equity ratio improved slightly to 0.49x as on mid-July 2021 from 0.70x as on mid-July 2020 on account of periodic repayment of term loan and repayment of unsecured loan. The overall gearing ratio remained stable at 3.01x at the end of FY as on mid-July 2021, impact of increased net worth being offset by higher short term loans. The interest coverage ratio was modest at 1.50x during FY21, although increased from 1.44x during FY20 on account of slight decrease in interest cost coupled with stable profit margins in FY21.

Working capital intensive nature of business

The operations of AFPL are highly working capital intensive marked by an average operating cycle of around 288 days in FY21 (FY20: 210 days). The average inventory period remained high at around 126 days during FY21 (FY20: 128 days) as

the company needs to hold sufficient stock of raw materials like maize, soya bean de-oiled cake, paddy and other agro products which are seasonal in nature and procurement is mainly in the form of imports. The company needs to offer reasonable credit period to its customers attributed to its presence in highly competitive business as a result of which the average collection period was 193 days during FY21 (FY20: 138 days). The high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of around 97.58% of sanctioned limits during the last nine-month period ended mid-May 2022.

Concentrated business over poultry feeds and inherent risk of poultry business

Poultry being one of the largest sector in livestock farming, AFPL currently derives around 99% of its revenue from sale of poultry feeds. This has led to the concentration of business over poultry feeds and high reliance on its single product type i.e. Poultry Feed. Although AFPL has added pig feeds and fish feeds during FY22, their contribution on total revenue remain insignificant. Meanwhile, poultry business remains susceptible to inherent risk such as Bird Flu breakout which occurs every year during the start of summer thus impacting sale of poultry feeds.

Exposure to volatile interest rates, input prices and foreign exchange fluctuation risk

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Furthermore, AFPL 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. 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.

Competitive nature of industry

The feed industry is highly competitive and fragmented with many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition. Due to the stiff competition, the pricing of feeds remains volatile and also varies from place to place. Furthermore, inherent risk such as perishable nature of product, constraints in transportation, cost of feeds and diseases affect poultry business. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feed sector.

Key Rating Strengths

Experienced promoters in the related field

AFPL has seven members in its board of directors chaired by Mr. Jagan Natha Kandel, who has more than 15 years of experience in various sectors including feed and poultry sectors. Mr. Shankar Prasad Kandel, Managing Director, looks after the company's day to day operations, and has more than 20 years of experience in different poultry companies.

Established brand and marketing network

AFPL commenced its commercial operations in 2013 and has an established customer network of more than 150 customers as on mid-April 2022. AFPL sells its feed products under two registered brands 'Ruchi Pellet' and 'Naulo Pellet' for its varieties of feeds packaged in 30-50 kg bags and sold all across Nepal. The customers include dealers (~60%) and retailers (~40%).

Locational advantage for import of raw materials with adequate storage capacity

AFPL has its manufacturing facility located in Bharatpur, Chitwan which lies adjacent to the Indian border providing locational advantage to AFPL for import of raw materials from India and third countries. AFPL has competitive advantage of its manufacturing operations being near Indian border as raw materials are mostly in form of imports. Also, the company has two godowns located in Kohalpur, Banke and Bardibas, Sarlahi, having storage capacity of 100 Metric Ton (MT) which provides adequate storage capacity.

Stable 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 AFPL (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 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 and eggs, poultry farming is expected to grow which indicates high growth potential for feeds industry.

About the Company

Anamol Feeds Private Limited (AFPL) is a private company established in 2011 with its registered office in Bharatpur, Chitwan, Nepal. AFPL manufactures six different types of feeds – four poultry feeds based on the type of chicken (Broiler, Layers, Parent, Giriraj), pig feeds and fish feeds. Each type of feed has four subcategories based on the age of animals– Prestarter, Starter, Grower and Final. The company distributes its products within Nepal under two registered brand names– 'Ruchi Pellet' and 'Naulo Pellet'. As on mid-April 2021, the company has an annual installed capacity of 36,000 MT.

Brief financials of AFPL for last three years ending FY21 are given below:

| | (Rs. Million) | | |
|--|----------------|----------------|----------------|
| For the year ended Mid-July | FY19 (Audited) | FY20 (Audited) | FY21 (Audited) |
| Income from Operations | 1,103 | 1,033 | 885 |
| PBILDT Margin (%) | 7.83 | 8.28 | 8.31 |
| Overall Gearing (times) | 2.64 | 3.01 | 3.01 |
| Interest Coverage (times) | 1.53 | 1.44 | 1.50 |
| Current Ratio (times) | 1.43 | 1.22 | 1.08 |
| Total Debt/Gross Cash Accruals (times) | 18.61 | 23.78 | 9.74 |

Annexure 1: Details of the Facilities rated

| Nature of the Facility | Type of the Facility | Amount (Rs. In Million) | Rating |
|----------------------------|-----------------------|-------------------------|------------|
| Long Term Bank Facilities | Term Loans | 108.00 | CARE-NP BB |
| Short Term Bank Facilities | Working Capital Loans | 214.00 | CARE-NP A4 |
| Short Term Bank Facilities | Non-Fund Based Loans | 367.13 | CARE-NP A4 |
| Total | | 889.13 | |

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