

Jay Shree Foods Private Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	19.50 (Reduced from 50.27)	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	980.50 (Increased from 949.73)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	1000.00		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' assigned to the long-term bank facilities of Jay Shree Foods Private Limited (JFPL). CRNL has also reaffirmed the rating of 'CARE-NP A3' assigned to the short-term bank facilities of JFPL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JFPL continue to derive strength from its established track record of operations, resourceful promoters along with experienced management team in the related field, moderate financial risk profile of the company marked by growing scale of operations, moderate gearing levels and debt service coverage indicators. The ratings also factor in JFPL's established brand and marketing setup with locational advantage for raw materials, moderate operating cycle, and stable demand of rice products being major Nepalese diet.

The ratings, however, remain constrained by low operating margins, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile input prices and interest rates.

Going forward, the ability of JFPL to manage growth in the operations while improving the profitability margins and rationalization of its debt through efficient working capital management would remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record of operations, resourceful promoters along with experienced management team in the related field

JFPL has been involved in the rice processing business for over a decade in Nepal. The promoters of JFPL have experience of more than three decades in the food industry. JFPL is currently managed under the guidance of Mr. Pawan Kumar Agrawal and Mrs. Suman Agrawal. Mr. Agrawal, Managing Director, has over three and a half decades of experience in food processing and trading industry. The management team is aptly supported by experienced professionals across various departments. The promoters of the company have also been infusing funds into the company in the form of equity to fund the operational needs of the company on back of increasing operations of the company.

Established brand and marketing setup

JFPL sells its products under various registered brands established in the Nepalese market, thus giving it competitive advantage over new players entering the industry. JFPL sells its products all over Nepal and has a customer base of more than 600 large and small scale retailers spread across all major cities in the country. Furthermore, to support its marketing

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

and sales, JFPL has offices and godowns located at major cities of Nepal focused in the Terai region (Nepalgunj, Bhairahawa, Gaidakot, Birgunj and Biratnagar) thereby facilitating procurement of raw material with favorable pricing terms. Furthermore, the processing unit JFPL is located nearby Indian border from where the company has been getting locational benefit for import of raw materials at lower transportation cost.

Moderate financial risk profile

Total operating income of the company increased by 6.71% year on year (yoy) to Rs. 2,825 Mn during FY21 (Audited, FY refers to the twelve-month period ended mid-July), majorly on account of increase in total quantity sold despite relatively lower price realizations. The growth in sales continued during 9MFY22 (Unaudited, refers to the nine month period ended mid-April, 2022) as JFPL booked total revenue of Rs. 2,270 Mn, registering a yoy growth of 10.01%. The company's profitability margins have been moderate, owing to low value addition and intense market competition given the highly fragmented nature of the industry. PBILDT margin reduced by 65 bps yoy to 5.26% during FY21 due to change in product mix and higher sale of lower priced rice products which have comparatively lower margins. Net profit, however, improved to Rs. 62 Mn in FY21 compared to Rs. 49 Mn in FY20 due to lower interest expenses.

Interest coverage ratio of the company improved to 3.80x during FY21 compared to 2.47x during FY20 on account of lower interest expenses despite decreased PBILDT. Increased net profit led to increase in GCA levels during FY21. Total debt/ GCA, however, remained almost stable at around 5.75x at the end of last 2 financial years (FY20 & FY21).

Total debt of the company increased to Rs. 466 Mn at the end of FY21 from Rs. 403 Mn at the end of FY20 which comprised of term debt of Rs. 45 Mn and working capital loans of Rs. 421 Mn. Overall gearing ratio of the company was moderate at 1.62x at the end of FY21 which deteriorated marginally from 1.58x at the end of FY20 due to increase in total debts on account of higher utilization of working capital borrowings as on July 15, 2021.

Moderate operating cycle of the company

JFPL is operating a rice mill and the raw materials are procured both domestically and in the form of imports. Due to seasonal nature of raw materials, JFPL regularly needs to maintain stock for around two months for smooth operations. In addition, the company needs to extend credit to their customers, leading to reliance on working capital limits. JFPL generally allows upto three months of credit period to its customers. With average collection period of 47 days, average inventory days of 37 days, and average credit period of 26 days, the total operating cycle of the company was 59 days in FY21, which improved from 67 days in FY20 mainly due to decline in inventory holding days. The average utilization of fund-based working capital limit against sanctioned limit was around 70% during 12 months period ending mid-May 2022.

Major Nepalese diet leading to stable demand

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. Furthermore, due to availability of products with varied packaging option ranging from 1 kg to 30 kg, JFPL has been able to attract both Business-to-Business and Business-to-Customer customer segment.

Key Rating Weaknesses

Susceptibility to price fluctuation of seasonal agro products

Paddy is a seasonal crop and its planting and production is generally dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile, as their production and prices also depend upon factors like area under production, yield for the year, demand-supply scenario and inventory carry forward of last year. Furthermore, the supply is

also dependent upon availability of seed, impacts of pests, as well as overall climatic condition during the year, exposing the fate of the company's operations 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 & capital requirement. Low product differentiation of JFPL's products results in high competition from other players, including traders. Considering the fragmented and competitive nature of industry, millers have low pricing power. Furthermore, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

Exposure to volatile interest rate

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.

About the Company

JFPL is a private limited company established in 2009 for processing of paddy into rice, ageing of purchased rice and production of beaten rice and soya nuggets, having processing facility in Gaidakot, Nawalparasi, Nepal. JFPL deals in varieties of rice such as long grain rice, jeera rice and sawa rice, and sells them under various brands with major brands being Bhansaghar and Mangalam.

Brief financial performance of JFPL 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	2,244	2,648	2,825
PBILDT Margin (%)	5.19	5.91	5.26
Overall Gearing (times)	2.89	1.58	1.62
Interest Coverage (times)	1.83	2.47	3.80
Total Debt/Gross Cash Accruals (times)	13.09	5.76	5.78
Current Ratio (times)	1.07	1.11	1.10

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 Loan	19.50	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Working Capital Limits	970.50	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	10.00	CARE-NP A3
Total		1,000.00	

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