

## Narayani Modern Pulses Industries <sup>(Revised)</sup>

### Ratings

Facilities	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	204.00	CARE-NP BB [Double B ]	Assigned
Short Term Bank Facilities	1,633.50 (Increased from 1,592.50)	CARE-NP A4+ [A Four Plus]	Reaffirmed
<b>Total Facilities</b>	<b>1,837.50</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long-term bank facilities of Narayani Modern Pulses Industries (NMPI). CRNL has also reaffirmed the rating of 'CARE-NP A4+' to the short-term bank facilities of NMPI.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NMPI continue to remain constrained by its below average financial risk profile marked by low operating margins, highly leveraged capital structure with modest debt servicing coverage indicators. The ratings also factor in working capital intensive nature of operations, foreign exchange fluctuation risk, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, exposure to volatile interest rates and partnership nature of constitution.

The ratings, however, derive strengths from the established track record of operations with experienced promoters, and locational advantage for import of raw materials. The ratings also take cognizance of the growth in operating income in FY21 (Audited, refers to the twelve-month period ended mid-July 2021).

*Going forward, the ability of the firm to profitably scale up its operations, managing its working capital requirements while limiting its borrowings leading to improvement in its financial risk profile will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### **Below average financial risk profile marked by low operating margins, high gearing levels and modest debt service coverage indicators**

The capital structure of the firm remained leveraged, with overall gearing ratio of 7.30x at the end of FY21, albeit improved from 9.15x at the end of FY20 on account of increase in net worth of the firm aided by accretion of profits during FY21. Leveraged capital structure of NMPI is on account of high dependence of bank borrowings to meet its working capital requirements. Similarly, debt service coverage indicators of NMPI also remain modest with total debt/ GCA of the firm remaining high at 31.73x and interest coverage ratio of 1.61x in FY21. Although NMPI's capital structure and debt service coverage indicators showed sequential improvement in FY21 over FY20, the indicators still remained below average. A highly leveraged capital structure with very less gearing headroom can limit the financial flexibility of a firm. Hence, rationalization of the debt levels will remain critical from credit perspective.

NMPT's PBILDT reduced to Rs. 152 Mn in FY21 from Rs. 166 Mn in FY20 with PBILDT margin of the firm deteriorating to 5.96% in FY21 from 7.41% in FY20. The decrease in the PBILDT margin in FY21 was on account of relatively higher increase in input price which was not completely passed on by the company. Although gross margins had declined during FY21 on a yoy basis, net profits had increased backed by lower interest outgo. Rationalization of working capital cycle of the firm during FY21 resulted in lower utilization of working capital loans, which, coupled with lower interest rates, led to decrease in interest cost of the firm. Consequently, NMPI reported improvement in PAT to Rs. 34 Mn during FY21 against Rs. 11 Mn during FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Partnership nature of constitution**

NMPI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners which may affect financial flexibility of the firm. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth.

**Susceptibility to price fluctuation of seasonal agro products**

NMPI is engaged in import and processing of pulses primarily masoor dal (red lentils), yellow peas and green peas. Prices of pulses are highly volatile in nature 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 monsoon during the particular year as well as overall climatic condition, exposing the fate of the firm's operation to vagaries of nature.

**High reliance on import and foreign exchange fluctuation risk**

NMPI is mainly focused in importing from foreign countries and its business operations are majorly dependent on imports. The procurement to raw material cost stood 80-85% total purchases for last three financial years, however decreased in H1FY22. The realization of sales is completely in the domestic currency. With initial cash outlay for procurement in foreign currency (USD) and sales realization in domestic currency, the firm is exposed to the fluctuation in exchange rates. Though the firm tries to pass on the price and currency volatility to the end users, any adverse fluctuations in the currency markets may put pressure on the profitability of the firm.

**Fragmented and competitive nature of industry coupled with exposure to volatile interest rate**

Import and processing of pulses is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Further, low product differentiation of NMPI's product results in high competition from other players including traders. Considering the fragmented and competitive nature of industry, the millers have low pricing power.

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. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the firm, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the firm from BFIs is subject to volatile interest rate.

**Key Rating Strengths****Established track record of operation with experienced promoters**

NMPI is part of Chachan Group which is one of the established business groups in Nepal. The group is promoted by Chachan family and currently is managed by the second and third generation of the family. The Group is involved in various businesses like cement manufacturing, edible oil refinery, import and trading of fertilizers, manufacturing of leather products. NMPI was established in 1994 and currently has two partners, Mr. Mohan Lal Agrawal and Mr. Shrawan Kumar Chachan; sharing profit and losses equally. Both the partners have more than 3 decades of experience in trading of pulses.

### Locational advantage for import of raw materials with adequate storage capacity

NMPI's plant is located in Lipnimal, Bara district of Nepal. The raw materials are transported by road through Raxaul Boarder of India which is ~12kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border. This provides NMPI an advantage of procurement of raw material at lower transportation cost. Due to the close proximity with the major populous cities, NWPI also has huge locational advantages to dispense its products as per the proliferation in the market demand.

### Growing scale of operations

NMPI generates its revenue from sales of various pulses. Total operating income (TOI) of the firm has increased by 13.96% in FY21 to Rs. 2,496 Mn from Rs. 2,186 Mn in FY20. Growth in revenue during FY21 was on account of rebound in sales volumes as well as higher price realization. Despite the increase in sales, however, During H1FY22 firm had achieved sales of Rs. 1,215 Mn.

### Improved operating cycle leading to rationalization of working capital borrowings

Though, the working capital cycle of NMPI appears to be high, primarily because the firm has high collection period of more than 4 months. However, the average fund based working capital utilisation for the company remains on the moderate side which stood at around 80% of its sanctioned working capital borrowings during the last 12 months period ended mid-April 2022.

In FY21, total operating cycle of the company improved to 197 days compared to 216 days in FY20 primarily due to improvement in average collection period to 125 days during FY21 from 152 days in FY20, which was partially set off by increase in average inventory holdings. However, the operations of the firm remain working capital intensive as the firm requires to stock-up the requisite inventory owing to smooth running of processing operations and delivery schedules. Since, majority of raw materials for NMPI are in the form of imports mainly against letter of credit / advances or having payable period of less than 30 days, average creditor days remained low at around 10 days during FY21; combining all entails led to high operating cycle.

### About the Company

Narayani Modern Pulses Industries (NMPI) is a partnership firm established in 1994 to process, import and export various kinds of Pulses and Grains. NMPI is registered with Department of Cottage and Small Scale Industries and has total capacity of 50,000 Metric Ton Per Annum (MTPA). NMPI deals in various kinds of pulses like Masoor Dall, Yellow Peas Dall, Green Mung Dall etc. NMPI caters to its customers through sales depot in Kathmandu, Pokhara, Itahari, Bhairahawa, Nepalgunj and Janakpur.

Brief financial performance of NWPI during last 3 years is given below:

For the Year ended Mid- July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	2,687	2,238	2,552
PBILDT Margin (%)	7.13	7.42	5.96
Overall Gearing (times)	12.24	9.17	7.30
Interest Coverage (times)	1.31	1.18	1.61
Current Ratio (times)	1.03	1.06	1.08
Total Debt/ Gross Cash Accruals (times)	36.07	72.75	31.73

A: Audited

## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	204.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	1,633.50	CARE-NP A4+
<b>Total Facilities</b>		<b>1,837.50</b>	

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#### About CARE Ratings Nepal Limited:

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