

Sagarmatha Agro Trading Private Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	630.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	630.00		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of CARE-NP A4+ assigned to the short-term bank facilities of Sagarmatha Agro Trading Private Limited (SATPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SATPL remain constrained by the company's leveraged capital structure and working capital intensive nature of operations, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates and import duties.

The rating, however, continues to derive strength from experienced promoters in the related field, established brands with diversified distribution network and locational advantage, and favorable demand outlook of the industry. The rating also factors in SATPL's moderate financial profile characterized by growth in total operating income, albeit with modest profitability margins, in FY21 (Audited, refers to the twelve-month period ended mid-July, 2021).

Going forward, the ability of SATPL to profitably scale up its operations 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

Leveraged capital structure with moderate debt coverage indicators

SATPL has a leveraged capital structure on account of high dependence of external borrowings to meet its working capital requirements. The overall gearing deteriorated to 2.18x at the end of FY21 from 1.30x at the end of FY20 due to increased working capital borrowings amid growing scale. SATPL's total gearing directly depends upon the utilization of short term loans as the company has not availed any long term debts, thus leading to fluctuating gearing levels. While the interest coverage ratio improved to 2.81x during FY21 from 1.76x during FY20 on account of decreased interest expenses, total debt to Gross Cash Accruals (GCA), deteriorated to 11.99x at the end of FY21 from 9.51x at the end of FY20. This was due to higher working capital loan utilization despite increased GCA.

Working capital intensive nature of operations

The operations of SATPL are working capital intensive in nature due to high volume procurement of agro products through imports. Due to seasonal nature of raw materials, JFPL regularly needs to maintain stock for adequate period for smooth operations. In addition, the company needs to extend credit to their customers, leading to reliance on working capital limits. With average collection period of 43 days, average inventory days of 18 days and average credit period of 9 days, the average operating cycle of the company was 51 days in FY21. Any inability of company to make continuous sales and timely

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

collection of its receivables will put stress on its liquidity position. The ability of SATPL to efficiently manage working capital utilization would be critical from credit perspective.

Susceptibility to price fluctuation of seasonal agro products

Paddy is a seasonal crop and its planting and harvesting 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

Rice trading industry is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier coupled with low technology and capital requirement. Low product differentiation of SATPL's product results in high competition from other players, including large-scale collectors, millers, traders and wholesalers. Considering the fragmented and competitive nature of industry, small and medium sized traders have low pricing power over its products in the market. The pricing is mainly market driven and any such market price lower than the cost of procurement of rice to SATPL from India will hit the profitability of the company.

Exposure to volatile interest rates and import duties

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 company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate. Furthermore, to promote the agriculture production within the country and to discourage the increasing import trends, Government of Nepal (GoN) may increase the import tariff on rice and other agro products, thus exposing the operations of SATPL to the regulatory risks.

Key Rating Strengths

Experienced promoters in the related field

SATPL is promoted by individuals having experience in various trading and agro business sectors. The company is managed under the leadership of Mr. Shyam Sundar Roongta, Chairman, who has experience of over 30 years in import business. Mr. Roongta is also a director in Mahalaxmi Bikash Bank Limited, a 'class B' financial institution, and a proprietor in Shree Durga Trade Concern, a sugar trading business.

Growing scale of operations however with modest profitability margins

Total operating income of the company increased by 40.35% in FY21 to Rs. 2,978 Mn aided by rebound in demand after sales in FY20 were impacted by the first wave of the pandemic. The profit margin of the company, however, remains on the lower side owing to low value addition and intense market competition given the highly fragmented nature of the industry. PBILDT margin of the company declined by 87 basis points (bps) in FY21 due to company's focus on increasing sales volume amid competitive pressures. In addition, the company's focus on cash sales leading to lower average price realizations

coupled with increase in general administrative expenses resulted a decline in PBILDT margin. PAT margin, however, improved slightly by 13 bps to 1.26% in FY21 due to decreased interest expenses amid lower interest rates in FY21.

Established brands with diversified distribution network and locational advantage

SATPL sells its products all over Nepal under the established brands namely Ripuraj, Makhankhor, Jai Ho, Munnasahi, Newari, Muskan, Jimbu, Bhoj Special and Royal Tasty, and has a customer base of more than 400 wholesalers spread across major cities in Nepal. Sales are made through direct marketing to existing as well as new customers, who are primarily wholesalers. To support its marketing and sales, JFPL has offices and godowns located at major cities of Nepal namely Pokhara, Kathmandu and Bhairahawa, in addition to its registered office in Birgunj. The offices and godowns located in Birgunj and Bhairahawa are in close proximity to Indian border from where the company has been getting locational benefit for import of raw materials at lower transportation cost.

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.

About the Company

Sagarmatha Agro Trading Private Limited (SATPL) is a private company established in 2012 for trading of rice and other agro products such as wheat, maize, millets etc. based on market demand. SATPL imports its products from India and sells them under its registered brand names across Nepal. The company has its registered office in Birgunj, Parsa.

Brief financial performance of SATPL 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	2,456	2,122	2,978
PBILDT Margin (%)	2.74	3.50	2.68
Overall Gearing (times)	3.43	1.30	2.18
Interest Coverage (times)	1.65	1.76	2.81
Total Debt/Gross Cash Accruals (times)	1.18	1.45	11.99
Current Ratio (times)	21.20	9.51	1.29

Annexure 1: Details of the rated facilities

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Short Term Bank Facilities	Working Capital Loan	630.00	CARE-NP A4+
Total		630.00	

Contact us**Analyst Contacts**

Mr. Prashiddha Sharma Gaire

Contact No.: +977 9802335865

Email: prashiddhas@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.