

Triveni Dal & Oil Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	29.67	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short-Term Bank Facilities	590.33	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	620.00		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+' assigned to the long-term bank facilities and 'CARE-NP A4+' assigned to the short-term bank facilities of Triveni Dal & Oil Industries Private Limited (TDOI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TDOI continue to be constrained by its leveraged capital structure, modest debt service coverage indicators and elongated operating cycle. The ratings also factor in fragmented and competitive nature of industry, susceptibility to price fluctuation of seasonal agro products, foreign exchange fluctuation risk coupled with exposure to volatile interest rates. The ratings also took cognizance of growth in total operating income during FY21 (Audited, refers to the twelve-month period ended mid-July 2021), however fluctuations in profitability margins leading to decline in profitability.

The ratings, however, derive strength from established and long track record of operations along with strong promoters and experienced management team, growing scale of operations, locational advantage and increasing demand outlook.

Going forward, ability of the company to profitable scale up its operations, manage its working capital requirements to support the growth in operations while improving its capital structure would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure and moderate debt service coverage indicators

Company's capital structure is leveraged with overall gearing ratio of 3.43x at the end of FY21 vis-à-vis 2.52x at the end of FY20 owing to high working capital utilization to fund the scale of business during FY21. Debt service coverage indicators as indicated by Interest coverage ratio stand moderate at 1.83x in FY21 down from 3.18x in FY20 on account of decreased profitability. Similarly, Total Debt to GCA of the company stand high at 40.22x in FY21, increased from 11.31x in FY20. The ability of TDOI to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management are crucial for the company to improve its financial risk profile.

Elongated Operating Cycle

The operations of the company are highly working capital intensive marked by an average operating cycle of 232 days for FY21, primarily on account of the high inventory holding. Being a trading and processing company, the company is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply for uninterrupted processing operations. Furthermore, raw material of the company is also seasonal (being an agro community) for which the company builds up raw material inventory to cater to the processing throughout the year resulting into high inventory holding. The collection period of the company remains at a level of 1.5 months, whereas the procurement of raw materials is generally done against advances resulting low creditors days. All this leads to highly working capital-intensive nature of operations. The average utilization of the company remains moderate at around 70%.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Susceptibility to price fluctuation of seasonal agro products

TDOI is engaged in imports and processing of pulses primarily Masoor Dal (Red Lentils), Yellow Peas and Green Peas. Being agro commodity, prices of pulses are volatile in nature as production is dependent on various factors like area under production, yield for the year, demand supply scenario and inventory carry forward of last year. Further, the supply is dependent upon 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 pulses is highly competitive due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Further, low product differentiation of TDOI'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.

High reliance on import and foreign exchange fluctuation risk on such imports

TDOI's business operations are dependent on the imports as company's revenue is mainly driven by importing of raw material. Being significant purchases made in the form of imports (~79% in FY21), the company is exposed to unfavorable changes in the government policy towards imports and also from the exporting countries. With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company's profitability margins are exposed to volatility in foreign exchange.

Exposure to volatile interest rate 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. 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.

Key Rating Strengths**Established and long track record of operations along with strong promoters and experienced management team**

TDOI has an operational track record of over two and half decades and derives strength from its strong promoter group. Majority of shareholding (around 75%) is held by individuals belonging to the Sanghai family brothers. The group has its presence in diversified business viz. banking, insurance, manufacturing, trading etc. The promoters of company have an experience of over two decades in trading of imported and processed pulses.

The company is managed under the overall guidance of its two-member Board of Directors (BoD) who possesses wide experience in the related field. The company is chaired by Mr. Birendra Kumar Sanghai who is also involved in various business of the Group. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of TDOI.

Locational advantage

The company's plant is located in Chattapipra, Bara district of Nepal. The raw materials are transported by rail from the Indian port to the Raxaul Boarder of India which is ~12 kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border which provides TDOI an advantage of supply of raw material at lower transportation cost.

Financial performance marked by growth in total operating income, however with fluctuating profitability margins

TDOI generates its revenue from sales of various varieties of pulses. The company reported growth in total operating income (TOI) of ~11%, yoy to Rs. 1,444 Mn during FY21. Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is exposed to fluctuation in prices as well as availability of agriculture commodities. Furthermore, the profitability margins also depend on the product mix sold during the respective year. During FY21, PBILDT of the company decreased to Rs. 69 Mn in FY21 from Rs. 123 Mn in FY20 on account of increased cost of sales amid fluctuation in prices. Consequently, net-profitability of the company also decreased. During 6MFY22 (Unaudited, refers to the six-month period ended mid-Jan, 2022), the company achieved net sales of Rs. 1,017 Mn.

Stable demand outlook of the products

Demand of pulses has been rising in Nepal with pulses being part of staple food of Nepal. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal giving importers like TDOI a favorable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

About the Company

Triveni Dal & Oil Industries Pvt. Ltd. (TDOI) is a private limited company incorporated on March 10, 1995 to process, import and export various kinds of pulses & grains. TDOI is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 18,000 Metric Ton Per Annum.

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

For the Year ended Mid- July,	FY19 Audited	FY20 Audited	FY21 Audited
Income from Operations	878	1,303	1,452
PBILDT Margin (%)	15.50	9.36	4.75
Overall Gearing (times)	2.68	2.84	3.43
Interest Coverage (times)	4.14	3.18	1.83
Current Ratio (times)	1.36	1.39	1.17
Total Debt/ Gross Cash Accruals (times)	6.49	11.31	40.22

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	29.67	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	240.33	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	350.00	CARE-NP A4+
Total Facilities		620.00	

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About CARE Ratings Nepal Limited:

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