

Janakpur Agro Farm Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,136.33	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	253.67	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,390.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Janakpur Agro Farm Private Limited (JAPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JAPL continue to remain constrained by project implementation and stabilization risk associated with its under-construction poultry farm project. The ratings also factor in fragmented and competitive nature of industry, exposure to inherent risk in poultry sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from experienced promoters and directors in the related field, high growth prospect of industry and government support for agriculture based industry.

Going forward, the ability of the company to timely execute the project within the projected commercial operation date (COD) avoiding further time or cost overrun will be the key rating sensitivities. Also, the ability of JAPL to achieve the envisaged scale up the operations and profitability would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation and stabilization risk

The company is setting up a new poultry farm along with organic fertilizer plant and CNG bio-gas plant at an estimated cost of Rs. 1,623.34 Mn which is being financed by debt of Rs. 1,136.33 Mn and equity of Rs. 487.01 Mn (debt equity ratio 70:30). The debt component has been fully tied up and equity of Rs. 200 Mn has been infused till June 30, 2022. As on mid-June, 2022, financial progress was around 48% of the estimated cost corresponding to around 60% of the construction work. The project is expected to be operational by mid-October 2023. Hence, the company continues to remain exposed to the residual risks associated with the ongoing project implementation and satisfactory operations thereafter.

Fragmented and competitive nature of industry

The poultry 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 competitive, the pricing of poultry products remains volatile and also varies from place to place. Furthermore, inherent risk such as perishable nature of product, constraints in transportation, cost of feeds, diseases affect poultry business. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in poultry sector.

Vulnerability of the industry's performance to outbreaks of flu and other diseases

JAPL will be involved in the sales of eggs, retired layers and fertilizers. Poultry business remains susceptible to inherent risk, such as diseases like Bird Flu which could impact sales of poultry feeds. Intermittent outbreaks of bird flu have affected

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

exports since 2006. Such disease outbreaks affect poultry industry and movement of poultry products across the country. These avian flu outbreaks could lead to a drastic fall in demand followed by crash in poultry prices. Such scenario could pressurize the company's revenue flows as well as profitability.

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. 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

Experienced promoters and directors in the related field

JAPL is promoted by institutional promoter (Khilung Kalika Agro Farm Private Limited (KKPL)) and individual promoters involved in diversifies industries. Mr. Khuma Prasad Aryal, Chairperson, is also associated with KKPL, which also deals in poultry eggs, meats and organic fertilizers. Mr. Shovakanta Dhakal, managing director, has a long standing experience in diversified sectors like banking, hotels, tourism, agriculture, poultry, renewable energy etc. KKPL, one of the promoters of JAPL has been operating in similar line of poultry farming business since five years.

High growth prospects of the industry

As per the National Economic Survey 2020/21, the production of meat has increased by 54.6% to 552,000 metric tons in FY20 with egg production of 1.49 billion units. Furthermore, the production of meat has annualized growth of 3.53% and the production of egg stood at 1.09 billion units in 8MFY22 (refers to the eight-month period ended mid-March 2022). The Poultry industry for the country has seen increasing trend in production and productivity backed by increasing trend of consumer favoring white meat, increasing inflow of tourists and rapid urbanization, changing food habits of urban inhabitants and availability of poultry meats and eggs in all urban centers and even in small market areas. Poultry industry is relatively insulated from the economic cycle and given the current consumption trend, the demand for poultry products are likely to remain stable over the medium-term.

Favourable Government policies towards poultry industry

Government of Nepal (GoN) has put restrictions on import of poultry items in Nepal from other countries as an initiative to protect domestic poultry sector and to attain self-sufficiency in the poultry sector. Since the industry remains susceptible to inherent risk, federal government has issued Bird Flu Control regulation, 2022 to carry out control mechanism to mitigate bird flu spread remaining in line with the Animal Health Livestock Services Act, 1998. The act will focus on standard mechanism accessing prior diagnosis of contamination and enforce strict restriction on transport of poultry products.

About the Company

Janakpur Agro Farm Private Limited (JAPL) incorporated on September 30, 2018 is a private limited company which has been established to engage in poultry farming of layers and eggs; and manufacture organic fertilizer located in Dhanusha, Nepal. The company will have two grower sheds, each with capacity for 51,840 birds and five laying sheds, each with capacity for 100,800 birds. JAPL will also construct an organic fertilizer plant with installed capacity of 8,720 tons per annum and a biogas CNG plant having 800kW electricity generation capacity.

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	1,136.33	CARE-NP B+
Short Term Bank Facilities	Fund Based	253.67	CARE-NP A4
Total		1,390.00	

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