

## Baba Vegetable Oil Industries Private Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Short Term Bank Facilities	<b>2,065.00</b> (increased from 760.00)	<b>CARE-NP A3</b> [A Three]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>2,065.00</b> (Two Thousand Sixty-Five Million Only)		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A3 [A Three]' assigned to the short term bank facilities of Baba Vegetable Oil Industries Private Limited (BVOPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of BVOPL continues to derive strength from its established track record of operations along with experienced promoters and management team and moderate financial risk profile marked by steady growth in revenues, improving gearing levels, adequate debt service coverage indicators and satisfactory operating cycle. The rating also factors in the locational advantage of BVOPL's manufacturing facilities and the otherwise stable demand outlook for edible oil over the medium term offset to some extent by the volatility in export opportunities for Nepalese refiners.

The rating, however, is constrained by reliance of majority of revenues from exports to India which is dependent on tariff arbitrage between direct imports vis-à-vis imports from Nepal exposing BVOPL to changes in tariff regimes of India for direct imports of various edible oils/crude, raw material price volatility risk, foreign exchange fluctuation risk, and regulatory risk. The rating also factors in susceptibility of BVOPL's business to price fluctuation of seasonal agro products, competitive nature of industry, and exposure to volatile interest rates.

*Going forward, ability of the BVOPL to manage growth in the operations by increased penetrating in the domestic market and sustained growth in exports while maintaining profit margins and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities. Also, any change in the regulatory framework pertaining to trade regulations and tariff differential with India impacting exports prospects will also be a key rating sensitivity.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

#### Established track record of operations along with experienced promoters and management team

The company has been into processing of edible oil for more than 25 years and has developed a market for itself in domestic as well as export markets through its long standing presence in this sector. BVOPL also derives strength from its established promoters belonging to the Debenara group of Nepal. The group is involved in diversified manufacturing, trading and other businesses. The promoters of company have experience of over two decades in trading and processing of edible oils. BVOPL is managed under the overall guidance of Mr. Prakash Kumar Mundara and Mr. Suresh Kumar Rathi. Mr. Prakash Kumar Mundara, Chairman, has an experience of more than 15 years in chemicals, agriculture and edible oil industry etc. Mr. Suresh Kumar Rathi, Director, has an experience of over 15 years and is involved in various trading and manufacturing sectors including agricultural products, soap and chemicals etc. The BOD is further supported by other experienced management team members.

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

**Essential part of cooking leading to stable demand and steady growth in the revenue**

The demand prospect of edible oil industry is stable as oil is one of essential commodity for cooking. The company has been able to achieve CAGR growth of around 37% in quantity sold in the last three years ending FY22. Furthermore, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of edible as well as crude oil is being imported in Nepal giving importers like BVOPL a favourable environment. Nepal has seen a steady growth in import of edible oil over the years.

**Locational advantage for both imports and exports**

The plant site is located in Biratnagar around 15 kms from Indo-Nepal borders. Since the procurement of raw materials is mainly in the form of imports and routes through Indian ports. The factory's proximity to the border remains a positive point leading to savings in freight cost. Furthermore, BVOPL also exports its products to India which accounted for 80% of total revenue in FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022). The factory's proximity to Indian border remains added advantage with regards to freight cost saving in export of goods.

**Moderate Financial risk profile**

During FY22 (Unaudited; refers to the twelve-month period ended mid-July 2022), Total Operating Income (TOI) of the company increased by ~38% to Rs. 7,592 Mn on account of growth in total quantity sold coupled with improvement in overall average price realization of its products amid increasing demand for exports, particularly for palmolein oil. PBILDT margin of the company remained moderate at 10.56% in FY22, albeit declining from 12.60% in FY21 (Audited; refers to twelve-month period ended mid-July 2021) mainly due to higher input costs coupled with relatively less favorable sales mix. However, in absolute terms, PBILDT increased by ~15% and PAT also increased by ~15% in FY22 from amid increasing scale.

Overall gearing of the company has been on an improving trend over the last 3 financial years (FY20-FY22). It improved to 1.22x as on mid-July FY22 from 1.69x as on mid-July FY21 supported by increased net worth base due to accretion of profit to reserves. Interest coverage ratio of the company remained adequate at 11.05x in FY22, although it decreased from 31.25x in FY21 on account of higher interest outgo due to increased interest rates coupled with increased utilization of the working capital facilities in FY22 to finance its increasing working capital requirements. Total debt to Gross Cash Accruals (GCA) improved to 1.24x as on FY22 end compared to 1.82x as on FY21 end contributed majorly by increase in GCA during the year.

**Satisfactory operating cycle of the company**

BVOPL relies on imported raw materials from various countries procured through Letter of Credit. BVOPL also needs to keep sufficient inventory for smooth operations and extend reasonable credit period to its customers, leading to reliance on working capital borrowings. BVOPL's average collection period stood at around 23 days during FY22. The company keeps inventory for around a month and the inventory holding period was around 24 days in FY22. Similarly, BVOPL's average payable period was around 21 days. Consequently, operating cycle of the company stood at 25 days during FY22, improving from 47 days during FY21 aided by improved debtor collection and inventory holding at the end of FY22.

**Key Rating Weaknesses****Raw material price volatility risk and foreign exchange fluctuation risk**

BVOPL's major raw materials include crude soyabean oil, crude sunflower oil and crude palm oil which are imported from various countries. The prices of the BVOPL's raw materials are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. The raw

material cost contributed around 87% of the total operating income of the company during FY22. Further, the total raw material requirement is met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. BVOPL incurred foreign exchange loss of Rs. 30 Mn during FY22 compared to foreign exchange gain of Rs. 16 Mn during FY21. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be crucial from its profitability perspective.

### **Exposure to regulatory risk**

The operation of BVOPL is vulnerable to regulatory risk arising from various laws and policies of the importing and exporting countries coupled with the domestic policies of Nepal. BVOPL's exports revenue (~80% of total sales in FY22), relies on the tariff arbitrage in India between direct imports of crude by Indian millers vis-à-vis imports of refined edible oil from Nepal. BVOPL, like many millers in Nepal, try to exploit any substantial tariff differential in India, which keep changing for different edible oils every year. Over the past few years, there have been changes in government policies, either domestic or international regarding import/export of edible crude. BVOPL's revenue is susceptible to regulatory policies relating to tariff barriers (differential trade tariffs among South Asian Free Trade Area), non-tariffs barriers (restriction on the quality of imports), international freight rates etc. Any unfavorable change in policy could impact the financial profiles of entities operating in the importing of crude edible oil and exporting to India.

### **Competitive nature of industry**

Import and processing/refining of edible oils is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of BVOPL's product results in high competition from other players including traders. Considering the competitive nature of industry, the millers have low pricing power. Agro products are also seasonal in nature with production dependent on various factors such as monsoon and climatic condition, exposing the fate of the company's operation to vagaries of nature.

### **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, with substantial upward pressure on interest rates in the last 2-3 quarters. Increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates, which is also evident in the recent rate hike taken by BFIs in September 2022. 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**

About the Company Baba Vegetable Oil Industries Private Limited (BVOPL) is a private limited company incorporated on September 22, 1993 for processing/refining of edible oils, having plant in Katahari, Morang, Nepal. Currently, the total installed capacity for refined soyabean, palmolein and sunflower oil is 45,000 MTPA. BVOPL sells these edible oils under the brand name of "Siddha Baba" in the domestic market. The company sales its products across all major places in Nepal through its sales depot located at Biratnagar, Kathmandu and Pokhara and also exports to India.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from Operations	3,093	5,519	7,592
PBILDT Margin (%)	12.60	12.60	10.56
Overall Gearing (times)	2.87	1.69	1.22
Interest coverage (times)	14.89	31.25	11.05
Current Ratio(times)	1.25	1.36	1.22
Total Debt/Gross Cash Accruals(times)	3.37	1.88	1.24

A: Audited, UA: Unaudited

#### **Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based/Non-Fund Based	2,065.00	CARE-NP A3 [A Three]
<b>Total</b>		<b>2,065.00</b>	

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