

## Natraj Agro Private Limited

### Rating

| Facilities/Instrument     | Amount<br>(Rs. in Million)   | Ratings <sup>1</sup>     | Rating Action |
|---------------------------|--|--------------------------|---------------|
| Long Term Bank Facilities | 1,245.00   | CARE-NP BB<br>[Double B] | Assigned      |
| <b>Total Facilities</b>   | <b>1,245.00</b><br><b>(One Thousand Two Hundred<br/>and Forty-Five Million Only)</b> |                          |               |

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB [Double B]' to the long term bank facilities of Natraj Agro Private Limited (NAPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of NAPL are constrained by its working capital intensive nature of business leading to reliance on bank borrowings to meet working capital requirements, and leveraged capital structure. The rating also factors in relatively short track record of operations, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates.

The rating, however, derive strength from NAPL's experienced promoters and management team in manufacturing and trading business, increasing scale of operations with improving profitability and cash accruals leading to improved debt service coverage indicators for FY22 (Unaudited; refers to the twelve-month period ended mid-July 2022). The rating also factors in stable demand outlook of agro products over the medium term and increasingly diversified distribution network of the company with locational advantage and established brands.

*Going forward, the ability of the company to profitably 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

#### Working capital intensive nature of business leading to reliance on bank borrowings

The operations of NAPL are working capital intensive in nature due to high volume procurement of agro products through imports. Due to seasonal nature of raw materials, NAPL has to keep enough inventory 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 51 days, average inventory days of 65 days and average credit period of 40 days, the average operating cycle of the company was 76 days in FY22, which increased from 58 days in FY21 (Audited; refers to the twelve-month period ended mid-July 2021) mainly due to higher inventory holding at FY22 end. The high working capital requirements were met largely through bank borrowings which normally results in average utilization of over 90% of its sanctioned working capital limits. The ability of NAPL to efficiently manage working capital requirements leading to lesser dependence on borrowings would be critical from credit perspective.

#### Leveraged capital structure and modest debt service coverage indicators

Majority of NAPL's bank borrowings is towards meeting working capital requirements amid increasing scale of operations, the company's capital structure stood leveraged with overall gearing ratio of 1.94x as on mid-July 2022. Also, interest

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

coverage ratio of the company stood moderate at 2.04x (PY:2.40) despite substantial improved profitability in FY22 amid higher interest expense owing to higher rates coupled with increased utilization of the working capital facilities to cater growing scale of operations. Furthermore, total debt/ GCA of the company was high at 14.12x as on mid-July 2022, albeit improved from 50.72x as on mid-July 2021 mainly aided by higher cash accruals during FY22.

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

NAPL is engaged in trading of different agro products as rice, pulses, beans and flour. As majority of sales (~70% of total sales) involves agro products, production is generally dependent on timing and intensity of the monsoon. Prices are highly volatile in nature, as their 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. 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**

Import and processing of agro products is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. 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 product to NAPL will hit the profitability of the company.

### **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, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. 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.

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

NAPL's business operations are dependent on imports as domestic production is not sufficient to fulfill the demand. As significant purchases (~50%) are made in the form of imports, 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 also exposed to volatility in foreign exchange.

### **Key Rating Strengths**

#### **Experienced promoters and management team in manufacturing and trading business**

NAPL derives strength from its strong promoter group belonging to Shikhar Organization which has strong presence in manufacturing and trading of Fast Moving Consumer Goods (FMCG) products in Nepal. The group has presence in diversified businesses and is involved in trading/manufacturing products such as food, agro machinery, water pumps, sweets &

confectionery, and other FMCG products. The day to day operation of the company is managed by Mr. Kedarnath Sharma, Chairman, who has experience of over 27 years in manufacturing and trading business.

### Improving financial profile in FY22 marked by growth in sales with improved profitability

NAPL generates its revenue from sale of rice, pulses, beans, flour, tea, confectionery and agro machineries. In FY22, the Total Operating Income (TOI) of the company increased by ~47 % over FY21 to Rs. 1,847 Mn. This growth was supported by increased demand for its products, majorly rice, supported by improving distribution network and increasing brand acceptance. Consequently, PBILDT margin of the company grew substantially to 5.19% during FY22 from 1.39% during FY21 owing to increasing sales coupled with favourable pricing. PBILDT margin were much lower in FY21 also on account of discounted sales by the company to various pandemic impacted communities. In absolute amount PBILDT increased to Rs. 96 Mn in FY22 (PY: Rs. 17 Mn). Growing sales and improved gross margins translated into improved PAT of Rs. 29 Mn in FY22 compared to Rs. 3 Mn in FY21. Similarly, Gross Cash accruals (GCA) increased to Rs. 39 Mn in FY22 from Rs. 10 Mn from FY21. The company's ability to sustain growth while maintaining profitability remains critical from analytical perspective.

### Stable demand outlook of agro products

Rice and pulses are a preferred staple food for majority of Nepalese. Rice ranks first among all the cereal crops in terms of acreage area, production and consumption. Furthermore, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of rice and pulses is being imported in Nepal. With growing population, its consumption is also expected to increase, thereby leading to a stable demand outlook over the medium-long term.

### About the Company

NAPL is a private limited company incorporated on April 02, 2019 for trading of rice and other agro products like pulses, beans, flour, tea and trading of agro machinery like tillers, water pumps, spray pumps, and many other modern types of machinery depending on market demand. These agro foods product are sold in the market under the brand name 'Upakar'. Brief financial performance of NAPL during last 2 years is given below:

(Rs. In Million)

| Particulars                            | FY21 (A) | FY22 (UA) |
|--|----------|-----------|
| Income from Operations                 | 1,258    | 1,847     |
| PBILDT Margin (%)                      | 1.39     | 5.19      |
| Overall Gearing (times)                | 2.44     | 1.94      |
| Interest coverage (times)              | 2.40     | 2.04      |
| Current Ratio (times)                  | 1.22     | 1.26      |
| Total Debt/Gross Cash Accruals (times) | 50.72    | 14.12     |

A: Audited, UA: Unaudited

### Annexure 1: Details of the Facilities Rated

| Nature of the Facility    | Type of the Facility | Amount (Rs. in Million) | Rating                |
|---------------------------|----------------------|-------------------------|-----------------------|
| Long Term Bank Facilities | Fund Based Limit     | 1,245.00                | CARE-NP BB [Double B] |
| <b>Total</b>              |                      | <b>1,245.00</b>         |                       |

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