

Yashoda Foods Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	299.34	CARE-NP BBB [Triple B]	Assigned
Short Term Bank Facilities	750.00	CARE-NP A3+ [A Three Plus]	Assigned
Total Facilities	1,049.34 (One Thousand Forty-Nine Million Three Hundred and Forty Thousand Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BBB' to the long term bank facilities and 'CARE-NP A3+' to the short term bank facilities of Yashoda Foods Private Limited (YFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of YFPL derive strengths from its moderate financial risk profile marked by increasing trend scale of operations, moderate operating cycle leading to relatively lesser dependence on bank borrowings and low gearing levels with comfortable debt service coverage indicators at the end of FY22 (Unaudited; refers to the twelve-month period ended mid-July 2022). The ratings also factor in experienced promoters of the company in the related field, established distribution network and popular brand with steady demand outlook for noodles products in Nepal over the medium term.

The ratings, however, are constrained by the relatively short track record of operations of the company, revenue concentration risk with majority of sales coming from the noodles business, albeit improving contribution likely from other products going forward amid increasing product diversification focus of the company. The ratings also factor in the raw material price volatility risk, competition from existing players in the Nepalese market, exposure to regulatory risk and volatile interest rates.

Going forward, the ability of the company to manage growth in the operations while maintaining the profit margins 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 Strengths

Experienced promoters of the company

YFPL is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. Mr. Chunna Prasad Sharma, Chairman, has over 37 years of cross-sector experience and holds position as Chairman and Director in various other businesses. Similarly, other directors of the company also have work experience in various businesses such as manufacturing, packaging, spices, real estate etc. The BOD are further supported by a team of experienced management team members.

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

Established distribution network and brand presence

YFPL has an increasing presence across nation reaching all provinces of Nepal and covering most major towns and cities. The company has around 250 authorized distributors spread across the country. The company also directly sell to department stores and supermarkets. Furthermore, the company sells its products under different brand names among which "Current" brand has become a widely popular brand in the Nepalese market in a relatively short span of time. The brand's unique positioning in the 'spicy noodles' segment has helped it gain popularity, particularly among the youth.

Moderate financial risk profile

YFPL started with its commercial production during 2017 and has a relatively short track record of operations. Despite having relatively short track record of operations, the company's total operating income has been growing on y-o-y basis and CAGR for last 4 years (FY19-FY22) was ~28%. During FY22, YFPL achieved Total Operating Income (TOI) of Rs. 3,438 Mn which increased from Rs. 2,666 Mn in FY21 (Audited; refers to the twelve-month period ended mid-July 2021) supported by increased sales owing to the increasing popularity of YFPL's "Current" brand among customers. Capacity utilization was healthy at ~90% during FY22. Despite growth in revenues, however, PBILDT margin declined to 8.36% in FY22 from 16.59% in FY21. The decline was mainly on account of increase in cost of production mainly raw materials price. During FY21, the company had benefitted from procurement of its raw materials at a lower cost by entering into the annual agreement. The profitability margins were also impacted in FY22 due to change in product mix. With a view to establish the new product profile, the company initially marketed its new products at low profitability margins.

Although year on year decline in profitability margins led to slightly moderated debt service coverage indicators of the company in FY22 compared to FY21, the coverage indicators still remained at comfortable level. Overall gearing ratio of the company stood at 0.41x at the end of FY22. Similarly, interest coverage ratio of the company also remained satisfactory at above 10x during FY22. However, with the increase in market interest rate in FY22, the finance cost of the company was high coupled with higher utilization of the working capital loans in FY22 to finance its increasing working capital requirements amid growing scale. Furthermore, total debt/ GCA of the company stood comfortable at 1.51x for FY22.

Moderate operating cycle

YFPL is involved in manufacturing of noodles and snacks by procuring the raw materials both locally and importing from India, Malaysia and Indonesia. YFPL is required to keep adequate inventory for smooth operations and extend reasonable credit to their customers, leading to some reliance on bank borrowings to meet working capital requirements. However, through a relatively efficient working capital management, the company has been moderately utilizing its working capital limits. The average utilization of working capital limits against sanctioned limit remains around 46% of its working capital limits for the twelve-month period ended mid-July 2022. The company's net operating cycle stood at 37 days for FY22 (PY: 31 days). Company generally allows two months of credit period to its customers, debtors turnover days stood at 39 days during FY22. The company keeps inventory for around 1-1.5 months and the inventory holding days was 47 days for FY22. The procurement is normally backed by letter of credit at sight leading to average payable period of 50 days for FY22.

Stable demand outlook of Noodles business over the medium term

Consumption of Noodles has been growing over the years in Nepal and is considered as one of major snacks of Nepalese consumers especially among youths. According to World Instant Noodles Association (WINA), Nepal is placed 13th in terms of demand ranking of noodles based on per capita servings data. With increasing demand for a variety of noodles likely to continue going forward as well, the overall demand scenario for the noodles business is expected to sustain over the medium term. Due to availability of its products with varied packaging and flavor options, YFPL has been able to attract consumers in domestic as well as foreign market. An increasing brand presence of the company bodes well for its future prospects.

Key Rating Weaknesses**Revenue concentration risk with majority of sales pertaining to the noodles business**

YFPL generates majority of its revenue (around 94% of total sales in FY22) from the sale of a variety of noodles. Revenue concentration on a particular product/segment exposes the company's business prospect highly dependent on that particular product. Emergence of a new product and threat of substitution or easy availability of other similar products in the market could pose threat to the company's business. This is somewhat mitigated with 'Current' brand being among the more popular noodles brand currently in Nepal coupled with YFPL's increasing focus on continuously improving its product offerings. Going forward, increasing contribution from other snacks is likely to help lower the revenue concentration from the noodles business, as the company looks to leverage the popularity of its Current brand on the other products as well.

Raw material price volatility risk

Wheat flour, palm oil, palmolein are the major raw materials for YFPL which are domestically purchased as well as imported from various countries. The prices of the YFPL'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 82% of the total operating income of the company during FY22. As apparent during FY21 and FY22, the company's overall profitability depends hugely on the raw material prices and YFPL's ability to pass through the changes to the customers. While increase in raw material prices could be sudden and substantial, the company's ability to immediately pass through the changes could be limited, particularly in a competitive market. Hence, the company's overall profitability remains highly exposed to the volatility in input prices.

Exposure to regulatory risk

YFPL's business is exposed to regulatory risk arising from various laws and policies in Nepal and also in countries from where it sources its raw materials as evident during the temporary ban of palm oil export by Indonesia in May 2022 and ban of wheat export by India with effect from May 14, 2022. Unfavourable change in regulations could disrupt the supply-chain of the company and ultimately impact its business prospects. While the company also benefits from certain policies designed to boost domestic production such as the Government of Nepal reducing custom prices on refined palm oil for industrial purposes to 10% from 15% in June 2022, Any unfavourable change in policy could materially impact the financial profile of the company will remain a key monitorable aspect.

Competitive and fragmented nature of industry

The Noodles industry in Nepal is highly fragmented with presence of several organized/ unorganized players owing to low entry barrier. Increasing demand for noodles have led to increased numbers of new players entering the market as well as large established player increasing their offerings to capture more market share, resulting in an intensely competitive market comprising of some large and several smaller players. Many new players have entered in the market in recent years with YFPL being one of them. As observed over the years, threat from a new player with a more appealing product remains high in the noodles market. Furthermore, considering the fragmented and competitive nature of industry, the noodles manufacturer has low pricing power

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 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.

About the Company

Yashoda Foods Private Limited (YFPL) is a private limited company incorporated on May 07, 2017 for the production of instant noodles and snacks. The company has its manufacturing facility in Tilottama-15, Rupandehi, Nepal. The company has a total installed capacity of 20,000 Metric Ton Per Annum (MTPA) for production of a variety of instant noodles and snacks. YFPL sells these noodles and snacks under different brand names including Current, Lali among others.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from Operations	1,736	2,666	3,438
PBILDT Margin (%)	13.44	16.59	8.36
Overall Gearing (times)	0.69	0.33	0.41
Interest coverage (times)	5.97	25.24	10.48
Current Ratio(times)	1.33	1.37	1.51
Total Debt/Gross Cash Accruals (times)	1.36	0.63	1.51

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	Term Loan	299.34	CARE-NP BBB
Short Term Bank Facilities	Fund Based/Non-Fund Based	750.00	CARE-NP A3+
Total		1,049.34	

Contact us

Analyst Contact

Ms. Anusha Thapa

Contact No.: 977-01-4012628

Email: anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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