

## Bhudeo Khadya Udhyog Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	680.00	CARE-NP B+ [Single B+]	Assigned
Short Term Bank Facilities	920.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,600.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Bhudeo Khadya Udhyog Private Limited (BKUPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BKUPL are primarily constrained by its weak financial risk profile marked by sluggish revenue generation and muted profitability leading to inadequate debt service coverage indicators of the company from operations which resulted in asset monetization by the company to meet the shortfall over FY21-FY22 (FY refers to the twelve-months period ending mid-July). The ratings also factor in BKUPL's leveraged capital structure, working capital intensive nature of operations, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry and exposure to volatile interest rates. The ratings, however, derive strength from the company's experienced promoters and management team in the related field, widespread distribution channel with locational advantage, and stable demand outlook for its products with rice being a major Nepalese diet.

*Going forward, the ability of the company to manage growth in operations while improving profit margins and rationalization of its debt through efficient working capital management leading to improved liquidity and solvency parameters would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Weak financial risk profile

The company's total operating income (TOI) has remained sluggish over FY20-FY22 with TOI in FY22 of Rs, 922 Mn still being lower than the pre-pandemic levels. PBILDT margin of around 5-6% over FY20-FY22 amid increased competition is also lower than the 8-9% achieved in prior years. This coupled with high interest outgo led to weak debt service coverage indicators of the company during FY21 and FY22. Interest coverage has remained less than 1x over FY21-FY22. Consequently, the company had monetized certain non-core assets in order to meet the shortfall. BKUPL's capital structure stood leveraged at the end of FY22 with debt-equity ratio of 1.31x (FY21: 0.44x) and overall gearing of 3.66x (FY21: 1.79x). Furthermore, amid sluggish cash generation from operations, the company's ability to meet debt obligations from operations remains challenging. The Company's ability to rationalize its debt through efficient working capital management leading to improved debt service coverage indicators is critical in terms of credit perspective. Until such improvement, the company is likely to depend on further asset monetization or financial support from promoters to meet any such shortfalls.

##### Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. BKUPL is involved in processing of paddy into rice by procuring raw materials both locally and via import (minor portion). Due to seasonal nature of raw materials, BKUPL regularly

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

needs to maintain inventory for at least three months for smooth operations. In addition, the company also needs to extend credit to its customers, which leads to reliance on working capital limits. During FY22, the average collection period was 116 days, average inventory period was 238 days and average creditor period was 5 days, which led to an operating cycle of 349 days (FY21: 414 days). This has led to increased reliance of the company on bank borrowings to fund its working capital requirements.

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

Paddy is a seasonal crop and harvesting is generally dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile, as their production and prices also depend upon 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 rice 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 MFPL's product results in high competition from other players including traders, millers and wholesalers. Considering the fragmented and competitive nature of industry, millers have low pricing power. Furthermore, Nepal being agriculture based nation, consumption for household purpose is produced in domestic level as well.

### **Exposure to volatile interest rates**

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 October 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.

### **Key Rating Strengths**

#### **Experienced promoters and management team in the related field**

BKUPL has an established track record of operation for past two decades. It is managed under the overall guidance of its nine individual board members who have experienced in various diversified business including rice mill processing. The company is part of the Golchha organization with Mr. Lakmanya Golchha, chairman, is also a Director in Sagarmatha insurance company, Institute of foreign affairs, Hansraj Hulaschand & Co and others. The board is aptly supported by an experienced management team across various functions.

#### **Widespread distribution network with locational advantages for raw material**

BKUPL sells varieties of rice, aata, besan, sooji, jeera and pulses under the popular hulas brand with packaging options ranging from the 1kg to the 25kg pack. BKUPL sells its products all over Nepal and has a customer base spread across all major cities of the country which provide it a ready market for introducing any new product/variety. Also, a long established

supplier's base, consisting of local players as well as players from India, provides some comfort from the point of raw material availability. The company's facility is also in close proximity to the Indian border thus providing it advantage in terms of transportation cost of raw materials. With a long track record and established distribution channel with eight branch offices across the country, it has established itself as a known brand.

### Major Nepalese diet leading to stable demand

Rice is a preferred staple food for majority of Nepalese. It ranks first among all the cereal crops in terms of acreage area, production and consumption. Rice also has a cultural significance and 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

Bhudeo Khadya Udhyog (BKUPL) is a private limited company incorporated on October 09, 2001 for processing of paddy into varieties of rice, hulas maida, sooji, dal, aata, flour, hulas bhuja .It is an expanded and diversify units of M/s Hans Rice Mills Private Limited. The registered office of BKUPL is at Biratnagar, Morang, Nepal. The company has its manufacturing facility in Lal Bandhi, Sarlahi, Nepal with total installed capacity of 19,800 Metric Ton Per Annum.

Brief financials of the company for the year ended mid-July 2021 is shown as follows:

(Rs. in Million)

For the year ended Mid-July	FY19(Audited)	FY20 (Audited)	FY21 (Audited)
Income from Operations	988	869	826
PBILDT Margin (%)	9.37	6.79	4.93
Overall Gearing (times)	2.09	2.02	1.79
Interest Coverage (times)	1.45	0.96	0.73
Current Ratio (times)	1.20	1.21	1.51

### Annexure 1: Details of the Facilities rated

(Rs. in Million)

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	680.00	CARE-NP B+
Short Term Bank Facilities	Fund Based Limit	920.00	CARE-NP A4
<b>Total</b>		<b>1,600.00</b>	

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