

Shivam Agro Industries Private Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	1,000.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term Bank Facilities	91.76	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	1,091.76 (One Billion Ninety One Million and Seven Hundred Sixty Thousands Only)		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities and the rating of CARE-NP A4+ assigned to the short term bank facilities of Shivam Agro Industries Private Limited (SAIPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to SAIPL continue to be constrained by its leveraged capital structure with modest debt coverage indicators, elongated operating cycle owing to high inventory holding period resulting in working capital intensive nature of business, susceptibility to price fluctuation for seasonal agro products, fragmented and competitive nature of industry, and relatively small scale of operations with single product. The ratings, however, derive strengths from SAIPL's established track record of operation with presence of experienced promoters, rebound in total operating income in FY22 (FY refers to the twelve-month period ending mid-July) and continued revenue momentum in H1FY23 (H1 refers to the six-month period ending mid-January) with fairly steady profitability margins. The ratings also continue to take in account SAIPL's growing marketing setup with locational advantage for raw materials and stable demand outlook for SAIPL's products over the medium term with rice being a major staple food in the country.

Going forward, the ability of SAIPL to manage growth in the operations while maintaining 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 Weaknesses

Leveraged capital structure with modest debt service coverage indicators

The capital structure of the company remained leveraged with overall gearing of 2.75x at the end of FY22, which slightly deteriorated from 2.64x at the end of FY21 on account of additional long term debt availed to fund capex (expansion of storage facility) coupled with higher short term borrowings to cater the increasing scale of operations. SAIPL's interest coverage ratio remained modest at 1.38x during FY22, although improved slightly from 1.31x during FY21. Similarly total debt/ GCA of the company was high at 32.82x during FY22, albeit improved slightly from 37.34x during FY21 due to marginal increase in GCA to Rs. 25 Mn in FY22 (FY21: Rs. 21 Mn) with benefit from increased scale offset mainly by increased interest outgo during FY22.

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

Highly elongated operating cycle resulting in working capital intensive nature of business

SAIPL is involved in processing of raw paddy/semi-finished rice into rice ready for consumption by procuring raw materials both locally and by importing from India. The operations of the company are working capital intensive in nature due to lengthy operating cycle. With average collection period of 91 days, average inventory holding period of 190 days and average creditor period of 22 days, SAIPL's operating cycle stood at 258 days in FY22 (340 days in FY21). Inventory holding period is high due to seasonal nature of paddy production, due to which SAIPL needs to maintain inventory for at least 6-7 months. In addition, the company also needs to extend credit to its customers for around three months amid competitive pressures. An elongated operating cycle leads to increased reliance of the company on the bank finance for meeting its working capital needs. The average utilization of fund based working capital limits was over 85% of sanctioned limits during FY22.

Susceptibility to price fluctuation of seasonal agro products

In Nepal, paddy is planted with onset of monsoon between June and August and harvested between September and November. The planting and production of the crop is dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile as 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 among others. Furthermore, the supply is dependent upon availability of seed, impacts of pests, monsoon during the particular year, as well as overall climatic condition, exposing the fate of the company's operation 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 SAIPL's product results in high competition from other players. Large-scale traders, millers and wholesalers dominate the rice supply chain. Considering the fragmented and competitive nature of industry, the millers have low pricing power. The pricing is market driven and Government of Nepal has not yet provided any minimum support pricing for the rice industry.

Key Rating Strengths**Established track record of operations coupled with experienced promoters in the related field**

SAIPL commenced its operations in 2012 and has around eight years of track record in the agro industry. SAIPL along with its sister concerns, collectively known as Shivam Organization, is engaged in rice processing, pulse processing, cattle feed and poultry feed production, soya nugget production, import of spices, dry fruits and agro commodities. Mr. Shivajee Prasad Shah Kalwar, Chairman, is a committee member of Birgunj Chamber of Commerce and has led the Rice, Oil and Pulses Association of Birgunj. Mr. Pramod Kumar Shah, managing director, has been looking after the rice business of SAIPL since its inception.

Growing marketing setup with locational advantage for raw materials

SAIPL sells its products all over Nepal and has a customer base of more than 200 wholesalers spread across all major cities in the country. SAIPL has its factory and 4 godowns located in Parsa District within close proximity of the Indian border which eases procurement and storage of raw materials. The company has also set up three marketing offices in Kathmandu, Pokhara and Jiri to effectively market its products.

Income growth trend in FY22 likely to sustain over near term along with stable profitability profile

SAIPL's total operating income (TOI) rebounded in FY22 to Rs. 1,450 Mn growing 33.64% year-on-year (y-o-y) boosted by higher demand for its premium rice brands following a 12.61% y-o-y in FY21 amid the impact of pandemic. The profitability

margins of the company have remained fairly steady with PBILDT margins at around 7% over FY21-FY22. However, net profitability remained a bit suppressed amid increased interest expenses. The revenue growth momentum of the company has continued into FY23 with total income of over Rs. 900 Mn recorded during H1FY23 (H1FY22: Rs. 750 Mn). A growing scale enables the company from benefits of economies of scale. However, the company's business profile remains constrained by revenue concentration risk from single product type i.e., rice. This is mitigated to some extent by the decent variety and price range of the company's offerings.

Stable demand outlook with rice being a major Nepalese staple food

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

Shivam Agro Industries Private Limited (SAIPL) is a private limited company, incorporated on July 24, 2012. It is promoted by individual promoters having long experience in Nepalese Agro industry. SAIPL's operations involve processing of paddy into rice having a fully automated rice mill plant in Parsa, Birgunj, Nepal. SAIPL's products include short grain rice and long grain rice in 7 different registered brands names with packaging ranging from 5kg to 30kg.

Brief financial performance of SAIPL during the past 3 years are given below:

(Rs. Million)

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	1,241	1,085	1,450
PBILDT Margin (%)	8.32	7.32	7.02
Overall Gearing (times)	2.90	2.64	2.75
Interest Coverage (times)	1.30	1.31	1.38
Total Debt/Gross Cash Accruals (times)	35.05	37.34	32.82
Current Ratio (times)	1.17	1.20	1.18

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Short Term Bank Facilities	Working Capital Loan	1,000.00	CARE-NP A4+
Long Term Bank Facilities	Term Loan	91.76	CARE-NP BB
Total		1,091.76	

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