Asian Feeds Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Rating[1]	Rating Action
Short Term Bank Facilities	**504.67**	**CARE-NP A4+ [A Four Plus]**	**Reaffirmed**
Total Facilities	**504.67 (Five Hundred Four Million and Six Hundred Seventy Thousand Only)**		

**Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed the rating of 'CARE-NP A4+' assigned to the short term bank facilities of Asian Feeds Private Limited (AFPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AFPL continues to be constrained by its working capital intensive nature of business leading to elongated operating cycle. Sustained high collection period remains a key challenge as debtor realization could remain sluggish over the near-term amid muted demand coupled with tight liquidity position of its customers. The rating also factors in AFPL's revenue concentration in poultry feeds, exposure to foreign exchange fluctuation risk, competitive nature of the feed industry as well as exposure to volatile interest rate.

The rating, however, continues to derive strength from AFPL's long track record of operations with experienced promoters and management team in the related field and established dealer network. The rating also takes cognizance of the relatively steady financial performance of the company marked by improved profitability and capitalization levels in FY23 (Unaudited; FY refers to the twelve-month period ending mid-July) despite a challenging operating environment leading to slight moderation in income.

Going forward, the ability of the company to continue to profitably scale up its operations with timely realization of its receivables leading to rationalization of working capital borrowings resulting in improved solvency and coverage indicators will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of business

The operations of AFPL are working capital intensive in nature as the business needs to maintain adequate inventory of raw materials and finished goods to avoid stock-outs. Furthermore, being agro-based, the availability of its raw materials is seasonal and a major portion of it has to be imported from India and other countries. While most suppliers from India provide credit period of ~30 to 60 days, the company has been providing credit period to its dealers up to ~90 days. This has resulted in a relatively higher collection period for the company, which has further stretched to 133 days during FY23 from 113 days during FY22. The average collection period was high due to slow realization of debtors, which remain impacted by the sluggish economic growth in the country. As a result, the company's operating cycle stood relatively elongated, increasing to 142 days in FY23 from 121 days in FY22. The company's ability to improve debtor realization leading to lesser dependence on borrowings to meet working capital requirements will remain critical from credit perspective.

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

Exposure to raw material price volatility risk and foreign exchange fluctuation risk

Grains (which mainly include Maize, Paddy and Pulses) and Oil Cake (which mainly include Soya Cake, Soya Oil and Mustard DOC) are the major raw materials of AFPL which contribute around 86% of total raw material cost of the company in FY23. AFPL has not entered into long term contracts with suppliers of raw materials, ensuing the company towards the risk associated with volatility in price and timely availability of raw materials. Additionally, the company has limited ability to pass on the increased cost of raw materials to consumers as change in feeds price is decided by Nepal Dana Udyog Sangh, which is followed by all feeds companies, resulting in likely impact on their profitability. Furthermore, the company imports a major portion (~57%) of its raw material from India and third countries like the US, Singapore, Thailand and Maldives, with the pricing of imported raw materials from the third countries in USD while sales realization is done in domestic currency. As the company has not hedged its USD exposure, it is prone to risk associated with the fluctuation in foreign currency exchange rate. The company reported forex loss of Rs. 2 Mn during FY23, down from Rs. 6 Mn during FY22.

Concentration of business over poultry feeds and inherent risks of poultry business

AFPL derives its revenue from sale of feeds for Broilers, Layers, Giriraj, Cattle, and Pigs. Among them, Broilers Feeds and Layers Feeds contribute major portions of the sales revenue. During FY23, ~65% of total sales revenue was generated from Broilers Feeds (PY: ~78%), followed by ~28% from Layers Feeds (PY: ~17%). This has led to high reliance of the business on a single product type i.e. poultry feed. Moreover, poultry business remains susceptible to inherent risks, such as perishable nature of product, constraints in transportation, seasonal changes, and outbreak of diseases like bird flu, which could impact sales of poultry feeds.

Fragmented and competitive nature of industry

The feed industry is highly competitive and fragmented with many regional organized and unorganized players. Low capital intensity and low entry barrier facilitate easy entry of new players, leading to increase in competition. Due to the stiff competition, the pricing of feeds remains volatile and also varies from place to place. Further, the industry has also attracted foreign investment from India and China. Domestic firms like AFPL can have difficulties competing with technologically well-equipped foreign invested companies. So, the ability to continuously maintain and improve product quality is a key factor for AFPL to sustain and capture market share in the feeds industry.

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. Interest rates higher than envisaged could result in squeezed margins of the company. Hence, funding taken by the company from BFIs is exposed to volatile interest rate.

Key Rating Strengths

Long track record of operations along with experienced promoters and management team

AFPL has an operational track record of over 12 years with an established market for its products. The company has two directors, with the BOD chaired by Mr. Bashu Dev Joshi, who manages trade, finance and administration department of the company and has over two decades of experience in different businesses. Director Mr. Devi Prasad Gautam has been engaged in poultry feeds trading business for more than a decade and looks after the sales and marketing department. The BOD is further supported by an experienced management team.

Moderate financial profile marked by growth in profit margins and improved capitalization level

Total operating income (TOI) of AFPL has slightly decreased by ~2% to Rs. 1,943 Mn in FY23 from 1,982 Mn in FY22 mainly due to decrease in overall quantity sold amid declining market demand. In a highly fragmented industry, increasing supply from the grey market has also adversely impacted the demand prospects for organized players like AFPL in FY23. However, PBILDT margin improved to 8.39% in FY23 from 6.53% in FY22 aided by relatively lower cost of goods sold. Consequently, the company achieved net profit of Rs. 65 Mn during FY23. Similarly, Gross Cash Accruals (GCA) increased to Rs. 74 Mn in FY23 from Rs. 62 Mn in FY22.

Supported by an improving net worth base owing to accretion of profits, the capital structure of the company has been on an improving trend over the last couple of years. Overall gearing ratio improved to 1.61x at the end of FY23 from 2.07x at the end of FY22. Likewise, Total Debt/ GCA lowered to 7.50x at the end of FY23 compared to 9.42x at the end of FY22. Debt service coverage indicators of the company remained moderate in FY23 with interest coverage of 2.53x (PY: 2.97x) and Total Debt/ GCA of 7.50x (PY: 9.42x).

Established dealer network

AFPL commenced its operation in 2011 and has an established dealer network of 318 dealers in FY23 (308 dealers in FY22). Contracts with dealers are normally on annual renewal basis and the company provides incentives (such as credits and trade discount) to large dealers based on its credit policy. Sales are mostly made to dealers on credit basis and the company has backed majority of its credit sales by bank, land and cheque guarantees.

Stable demand outlook over the medium term

As per the report published by the Ministry of Agriculture and Livestock Development, production of meat in Nepal stood at 512,788 MT in FY21 (latest available), among which chicken accounted for the largest share (~40%). Likewise, production of eggs stood at 1,330 Mn units. Poultry feeds, being the major business segment of AFPL, contributed around 94% of its total sales in FY23. An increasing trend of meat and egg industry is likely to benefit feed industry players like AFPL. Poultry feed is given to chicken as a better substitute to traditional feeds like oil cakes, cereals, etc. and in view of the continuation in consumption of chicken meat and eggs, poultry farming is expected to grow, which indicates high growth potential for feeds industry over the medium to long term.

About the Company

AFPL was incorporated on September 29, 2011 as a private limited company and is promoted by individual promoters. The manufacturing process of AFPL is ISO 9001:2008 certified. Its registered office is located in New Baneshwor, Kathmandu, Nepal and the plant is located in Budiganga Rural Municipality, Morang, Nepal. The company is involved in manufacturing poultry and other livestock feeds.

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

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	1,336	1,982	1,943
PBILDT Margin (%)	6.25	6.53	8.39
Overall Gearing (times)	2.21	2.07	1.61
Interest coverage (times)	2.18	2.97	2.53
Current Ratio (times)	1.21	1.26	1.33
Total Debt/Gross Cash Accruals (times)	13.19	9.42	7.50

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	504.67	CARE-NP A4+
Total		**504.67**	

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About CARE Ratings:

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