

## Yashoda Foods Private Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	299.34	CARE-NP BBB+ [Triple B Plus]	Revised from CARE-NP BBB
Short Term Bank Facilities	750.00	CARE-NP A2 [A Two]	Revised from CARE-NP A3+
<b>Total Facilities</b>	<b>1,049.34</b> <b>(One Thousand Forty-Nine Million Three Hundred and Forty Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities of Yashoda Foods Private Limited (YFPL) to 'CARE-NP BBB+' from 'CARE-NP BBB'. CRNL has also revised the rating assigned to its short term bank facilities to 'CARE-NP A2' from 'CARE-NP A3+'.

### Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities of YFPL factors in the improving operational and financial performance trend of the company in FY23 (Unaudited, FY refers to the twelve-month period ending mid-July) marked by increased scale of operations aided by improved product diversification. Sustained demand for its existing spicy noodles range coupled with strong uptick for its more recently launched snacks portfolio has led to increased income of the company with improved profitability in FY23, which is likely to sustain in FY24 as well. Amid improved cash generation from operations, the company's debt levels declined at FY23 end, leading to an improved capital structure with low gearing profile and adequate debt service coverage indicators during FY23. The ratings continue to derive strength from experienced and resourceful promoters of the company and moderate operating cycle leading to relatively lesser dependence on bank borrowings. The ratings also factor in established distribution network and popular brand with steady demand outlook for YFPL's products in Nepal over the medium term. The ratings also take cognizance of increasing export sales of the company which has provide assistance to increase market presence in the international market as well. The ratings, however, are constrained by exposure to the volatility in the raw material prices, competition from existing players in the Nepalese market and exposure to regulatory risk.

*Going forward, the ability of the company to sustain 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. Any significant investments to subsidiary or other related party leading to material deterioration in its capital structure will also be rating sensitivity.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

##### Experienced and resourceful 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 around four decade of cross-sector experience and holds position as Chairman and Director in various other businesses. He is also chairman in Sona Packaging Industries Private Limited [CARE-NP BBB-/A3]. Similarly, other directors of the company also have work experience in various businesses such as

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

manufacturing, packaging, spices, real estate etc. The BOD is aptly supported by an experienced team across various functions/departments.

### **Growing scale of operations with improving product diversification, likely to sustain in FY24**

During FY23, total operating income (TOI) of the company increased by ~45% year-on-year to Rs. 4,964 Mn owing to increased quantity sales of both noodles and snacks segment. Along with sustained uptick of the noodles segment, sales of snacks increased by six folds in FY23 aided by strong demand for its newly introduced flavor fried snacks. The company continued to have comparatively healthy operating margins owing to its more premium offerings. With increase in TOI leading to better economies of scale coupled with softening of raw material prices, YFPL's PBILDT margin increased by 183 bps to 10.60% in FY23. Similarly PAT margin increased by 63bps to 6.40% in FY23. With increased market demand, YFPL has added its capacity to 30,000 Metric Ton Per Annum (MTPA) in FY23 from 20,000 MTPA for its noodles segments where capacity utilization stood moderate at around 62% during FY23 (earlier ~85% capacity utilization for 20,000 MTPA in FY22). Furthermore, the company has booked income of Rs. 2,503 Mn during 5MFY24 (refers to the five-month period ending mid-December 2023) suggesting the growth momentum is likely to sustain in FY24 amid sustained demand for its products.

### **Low gearing profile with adequate debt service coverage indicators**

The capital structure of the company has been improving during past three FYs (FY21-FY23) on account of increasing tangible net worth of the company backed by sustained cash flow from operations leading to lower reliance on external borrowings. Overall gearing ratio of the company improved to 0.12x as on mid-July 2023 from 0.40x as on mid-July 2022. With improved PBILDT, interest coverage ratio improved to 10.01x in FY23 from 9.94x in FY22. Furthermore, total debt/ GCA of the company stood comfortable at 0.35x for FY23, improving from 1.44x for FY22 owing to higher cash accruals coupled with decline in debt level of the company. Furthermore, the company has capital commitment of Rs. 350 Mn to its wholly owned subsidiary of which YFPL has made investment of Rs. 125 Mn till the end of FY23. The company's expected operational cash generation is likely to suffice to meet the capital commitment. However, any material increase in investments or additional fund outflow in this regard leading to material deviation in the company's capital structure than envisaged will remain key rating monitorable.

### **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 250-300 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. Furthermore, the company also started to export its products to India and other countries thus providing assistance to increase its market presence in international market as well.

### **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. The company keeps inventory in between 1-2 months and the inventory holding period was around 44 days in FY23 (FY22: 49 days). YFPL's average collection period stood at around 30 days in FY23 (FY22: 40 days). Similarly, YFPL's average payable period was around 39 days for FY23. Consequently, operating cycle of the company stood at 34 days during FY23, improving from 38 days during FY22 aided by improved debtor collection and inventory holding at the end of FY23. A relatively efficient

working capital management by the company has resulted in moderate utilization of its working capital limits, indicative also in no outstanding working capital borrowings at FY23 end.

### **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. However, increasing demand for healthy products is expected to moderate this growth in the industry.

### **Key Rating Weaknesses**

#### **Raw material price volatility risk**

YFPL major raw materials include wheat flour, palm oil, palmolein 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 81% of the total operating income of the company during FY23. 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 and susceptibility to changing customer's tastes and preferences**

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 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. Furthermore, the business is also susceptible to changing health preferences of consumers towards healthier alternatives.

#### **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.

### 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 30,900 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.

### Financial Performance

(Rs. In Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	2,666	3,432	4,964
PBILDT Margin (%)	16.66	8.77	10.60
Overall Gearing (times)	0.33	0.40	0.12
Interest coverage (times)	23.01	9.94	10.01
Current Ratio(times)	1.37	1.55	1.89
Total Debt/Gross Cash Accruals (times)	0.63	1.44	0.35

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 A2
<b>Total</b>		<b>1,049.34</b>	

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