

Bhudeo Khadya Udhog Private Limited

Rating

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

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BKUPL remain constrained by its leveraged capital structure with modest coverage indicators and elongated working capital cycle. The ratings also continue to factor in BKUPL's susceptibility to price fluctuation of seasonal agro products, 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. The ratings also take cognizance of improved operating performance of the company in FY23 (Audited, FY refers to the twelve-month period ending mid-July), sustenance of which will remain critical from credit perspective.

Going forward, the ability of company to manage growth in the operations while maintaining the profitability margins and rationalization of its debt through efficient working capital management would remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure with modest coverage ratio

BKUPL's overall gearing ratio increased to 3.04x at the end of FY23 (FY22: 2.39x) on account of term loans availed for capex coupled with increase in working capital loans. BKUPL's total debt increased to Rs. 1,443 Mn (FY22: Rs. 1,097 Mn). Despite increased debt levels, BKUPL's interest coverage ratio improved to 1.50x in FY23 (FY22: 1.25x), aided by increase in PBILDT of the company. However, debt protection metrics indicated by total debt to GCA of the company stood high at 31.08x in FY23, albeit improved from 76.61x in FY22. The company's overall debt levels remain relatively high compared to its current scale of operations. The company's ability to continue to rationalize its debt levels vis-à-vis its scale of operations leading to sustained improvement in its coverage and debt protection metrics will be critical from analytical perspective.

Highly elongated operating cycle

The operations of the company are working capital intensive in nature. BKUPL is involved in processing of paddy into rice, value addition by ageing of purchased rice and by procuring raw materials both locally and by importing. Due to seasonal nature of raw materials, BKUPL 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 FY23, the average collection period was 180 days, average inventory period was 222 days and average creditor period was 9 days, which led to an operating cycle of 392 days (FY22: 422 days). This has led to increased reliance of the company on bank

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

borrowings to fund its working capital requirement. The company had working capital loans outstanding of Rs. 859 Mn at FY23 end vis-à-vis total operating income of Rs. 1,091 Mn in FY23.

Susceptibility to price fluctuation of seasonal agro products

BKUPL is engaged in processing of agro products. Prices of these products are highly volatile in nature and being agro products are seasonal in nature with production and prices dependent on various factors like area under production, yield for the year, demand supply scenario and inventory carry forward of last year. The supply is also 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.

Competitive nature of industry

Import and processing of rice is highly competitive due to presence of several organized/ unorganized players owing to low technology and moderate capital requirements. Low product differentiation of BKUPL'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.

Exposure to volatile interest rates

BKUPL's interest expenses are structured under a floating interest rate framework, wherein a premium is applied to the monthly base rate, resulting in periodic adjustments to the interest rate. The inherent volatility of base rates within Nepalese banks and financial institutions (BFIs), influenced by liquidity availability etc., contributes to fluctuations in interest rates. Additionally, the company's high debt-to-equity ratio renders it susceptible to adverse effects from unexpected interest rate hikes, potentially shrinking margins and impacting overall liquidity.

Key Rating Strengths

Improved operating performance in FY23 aided by diversified product range

The company's total operating income (TOI) improved to Rs. 1,055 Mn in FY23 from Rs. 922 Mn in FY22, and has rebounded to pre-pandemic levels. BKUPL is the processing of agro products like rice, aata, besan, sooji, jeera and pulses under the brand name of HULAS and has a varied product portfolio. PBILDT margin also improved to 13.41% in FY23 in comparison to 7.54% in FY22, due to change in product mix and inventory gains. As of mid-January 2024, the company has booked revenue of Rs. 634 Mn. The company's customer base largely comprises B2C (retail segments) along with some B2B in the basmati rice segment. These customers remain supported by diversified products and its variants as well as the availability of diversified packaging options ranging from the 1kg to the 25kg pack.

Established track record of operations, experienced promoters and management team in the related field

BKUPL has as 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 in the market.

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.

Financial Performance

(Rs. in Million)

For the year ended Mid-July	FY21 (Audited)	FY22 (Audited)	FY23 (Audited)
Income from Operations	838	953	1,091
PBILDT Margin (%)	6.30	7.54	13.41
Overall Gearing (times)	1.79	2.39	3.04
Interest Coverage (times)	0.95	1.25	1.50
Current Ratio (times)	1.51	1.43	1.46

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
Total		1,600.00	

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