

New Baidehi Khadh Udhyog

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	88.10	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	711.90	CARE-NP A4 [A Four]	Assigned
Total Facilities	800.00 [Eight Hundred Million Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term facilities of New Baidehi Khadh Udhyog (NBKU).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NBKU are constrained by its leveraged capital structure with modest debt service coverage indicators, working capital intensive nature of business leading to reliance on bank borrowings, price volatility risk of seasonal agro products, competitive nature of industry, exposure to volatile interest rates and proprietorship nature of constitution.

The ratings, however, derive strength from NBKUs experienced owner and management team in the related field and steady improvement in its operating performance trend over FY20-FY23 (FY refers to the twelve-month period ending mid-July) marked by growing income levels and stable profitability. The ratings also factor in locational advantage for raw materials, and stable demand outlook for rice products over the medium-term with rice being a major Nepalese diet.

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure with modest debt service coverage indicators

NBKU's capital structure is leveraged with overall gearing ratio of 3.36x at the end of FY23. The firm has relatively high dependence on external borrowings to meet its working capital requirements and has taken term debt taken for increasing its installed capacities in recent years. Consequently, NBKU's interest coverage ratio was modest at 1.31x in FY23, declining from 1.45x in FY22 amid higher debt levels and interest rates. Similarly, the total debt/GCA of the company was relatively high at 32.70x during FY23. Leveraged capital structure with low gearing headroom could limit the firm's financial flexibility going forward. NBKU's ability 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.

Elongated operating cycle

NBKU is involved in processing of paddy into rice by procuring raw material domestically and importing from India. Due to seasonal nature of paddy, the firm needs to regularly maintain stocks for around 4-5 months, and also extend credit to their customers, which lead to reliance on working capital limits. NBKU generally allows upto 75 days of credit period to its

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

customers. The total operating cycle of the company stood relatively high at 169 days in FY23 (FY22: 192 days), mainly on account of high average inventory days of 133 days (FY22: 165 days) and debtor period of 45 days in FY23 (FY22: 30 days), leading to increased reliance on the bank finance for meeting working capital needs.

Susceptibility to fluctuation in raw material prices and monsoon dependent operations

Agro-based industry is characterized by its seasonality, as it is dependent on the availability of raw materials, which further varies with different harvesting periods. The price of rice moves in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. Adverse climatic conditions can affect their availability and leads to volatility in raw material prices. Paddy is the major raw material and the peak paddy procurement season is during November to January during which the company builds up raw material inventory to cater to the processing of rice throughout the year. Since there is a long-time lag between raw material procurement and liquidation of inventory, the company is exposed to the risk of adverse price movement resulting in lower realization than expected.

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

NBKU'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 relatively 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

Experienced promoter and established track record of operations albeit proprietorship nature of constitution

NBKU is managed under the stewardship of proprietor Mr. Jhawendra Sah, who has been at the helm of the firm since its inception in 2009. Mr. Sah comes from a family with three generations of experience in the rice processing industry. Furthermore, he is supported by an experienced team across various functions. However, NBKU, being a sole proprietorship firm, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency/decision of the proprietor.

Steady growth in operations with steady profitability over FY20-FY23

The firm has recorded consistent growth in its Total Operating Income (TOI) over the past four years owing to increased capacity as well as growing market penetration. Growing with a CAGR of 42.15% over FY19-FY23, the TOI stood at Rs. 1,354 Mn in FY23. The total production capacity of its plant was upgraded from 38,400 MTPA to 230,400 MTPA in FY21. It marked year-on-year TOI growth of 40% in FY23 following 76% y-o-y growth in FY22 post the capacity enhancement. Furthermore, NBKU has achieved total operating income of Rs. 580 Mn (based on Provisionals) during H1FY24 (refers to the six-month period ending mid-January 2024) suggesting the growth momentum is likely to sustain in FY24 amid sustained demand for its products. PBILDT margin of the firm has been rangebound at around 6% over the past two fiscal years.

Locational advantage for procurement of raw materials and sales

NBKU sells its products in several major cities and towns, especially in the eastern Terai and western Hilly regions of Nepal, as well as peripheral local areas. The factory and corporate office are located in Terai region (considered granary of Nepal), which eases procurement of raw material due to easy availability coupled with favourable pricing terms. Paddy being the raw material is procured domestically from farmers as well as imported from India (~76% and 24% of total purchase, respectively, in FY23).

About the Company

New Baidehi Khadh Udhog (NBKU) is a proprietorship, incorporated on September 03, 2009 for processing of paddy into rice in Nepal. The firm operates throughout Nepal with its plant located in Ishworpur-7, Pokharitol, Sarlahi, within the Madhesh Pradesh of Nepal. NBKU majorly imports paddy, processes it into rice and further carries out grading, sorting and polishing before selling them in various parts of Nepal. The current total installed capacity of the plant is 230,400 Metric Tons Per Annum (MTPA).

Financial performance

(Rs. In Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	549	968	1,354
PBILDT Margin (%)	4.19	6.20	6.05
Overall Gearing (times)	1.98	2.92	3.36
Interest coverage (times)	1.96	1.45	1.31
Total Debt / Gross Cash Accruals (times)	30.09	28.14	32.70
Current Ratio (times)	1.66	1.37	1.28

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	88.10	CARE-NP BB-
Short Term Bank Facilities	Working Capital	500.00	CARE-NP A4
Short Term Bank Facilities (Proposed)	Working Capital	211.90	CARE-NP A4
Total Facilities		800.00	

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