

## Shivam Agro Industries Private Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	337.56	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	746.50	CARE-NP A4+ [A Four Plus]	Reaffirmed
<b>Total Facilities</b>	<b>1,086.06</b> <b>(One Billion Eighty-Six Million and Sixty Thousand Only)</b>		

*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, competitive nature of industry, and single product revenue profile. The ratings, however, derive strengths from SAIPL's established track record of operations with experienced promoters, steady improvement in financial performance in FY23 (FY refers to the twelve-month period ending mid-July). 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

SAIPL's overall total gearing was high at 3.39x as on mid-July 2023, which increased from 2.75x as on mid-July 2022 mainly on account of increase in working capital borrowings amid increasing scale of operations. The company's interest coverage was modest at 1.27x in FY23, slightly lower than 1.38x in FY22 with impact of increased PBILDT being offset by increased interest expenses attributed to higher debt levels and interest rates. Furthermore, Total debt/ GCA of the company stood elevated at 38.18x in FY23 (FY22: 32.82x). The rationalization of debt levels remains critical from credit perspective, as a highly leveraged capital structure with less gearing headroom can limit the company's financial flexibility.

#### Highly elongated operating cycle

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 resulting in lengthy operating cycle. With average collection period of 91 days, average inventory holding period of 196 days and average creditor period of 30 days, SAIPL's operating cycle stood at 257 days in FY23 (FY22: 260). 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

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

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.

### **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.

### **Presence in competitive agro-processing 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 a decade 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 boarder 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.

### **Steady financial performance in FY23**

SAIPL's total operating income (TOI) improved to Rs. 1,623 Mn growing 11.93% year-on-year (y-o-y) boosted by higher demand for its premium rice brands. Profitability margins of the company have also improved with PBILDT margins at around 9% in FY23 from 7% in FY22, supported by higher sales of more margin accretive brands. However, the revenue growth momentum of the company has slowed in H1FY24 with total income of Rs. 728 Mn (H1FY23: Rs. 900 Mn). Despite sequential improvement in FY23, the company's profitability margins remain impacted by the low value addition prospects and intense

market competition given the highly fragmented nature of the industry. This apart, interest burden on borrowings also restricts the net profitability of the company.

### 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	FY21(A)	FY22 (A)	FY23 (A)
Income from Operations	1,085	1,450	1,623
PBILDT Margin (%)	7.32	7.02	9.17
Overall Gearing (times)	2.64	2.75	3.39
Interest Coverage (times)	1.31	1.38	1.27
Total Debt/Gross Cash Accruals (times)	37.34	32.82	39.18
Current Ratio (times)	1.31	1.38	1.27

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	337.56	CARE-NP BB
Short Term Bank Facilities	Fund Based	746.50	CARE-NP A4+
<b>Total</b>		<b>1,084.06</b>	

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