

Dolphin Feeds Private Limited

Rating

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long-Term Bank Facilities	405.00	CARE-NP BB- [Double B Minus]	Assigned
Short-Term Bank Facilities	755.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,160.00 (One thousand one Hundred and Sixty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Dolphin Feeds Private Limited (DFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of DFPL are constrained by leveraged capital structure and modest debt service indicators, working capital intensive nature of operations leading to increased reliance on borrowings, and exposure to the volatility in the raw material prices and volatile interest rates. The ratings also factor in the competitive nature of the feed industry, exposure to regulatory risk and foreign exchange fluctuation risk associated with procurement of raw materials.

The ratings, however, derive strength from DFPL's experienced promoters in the related field along with established brand and marketing network. The ratings also factor in locational advantage in importing raw materials, adequate storage capacity as well as growing demand scenario. The ratings also factor in the moderate financial performance trend of the company characterized by growing scale of operations over FY22-FY23 (FY refers to the twelve-month period ending mid-July).

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged Capital Structure

The capital structure of DFPL stood leveraged as on mid-July FY23 with debt to equity and overall gearing ratio of 1.99x and 5.03x, respectively, (PY: 2.29x and 5.43x, respectively). Term debt of the company stood high at Rs. 374 Mn (PY: Rs. 381 Mn) and short-term loans at Rs. 569 Mn (PY: Rs. 524 Mn) in FY23. Consequently, debt service coverage indicators of the company stood modest with interest coverage ratio at 1.11x (PY: 1.67x). Total debt/GCA (Gross Cash Accruals) stood elevated at 69.42x (PY: 24.96x) in FY23. Furthermore, Total Outside Liabilities/Net worth of the company stood high at 6.74x at the end of FY23 (PY: 6.89x). Overall, the capital structure of company is leveraged and gearing is likely to remain on the higher side over the near term, which sequential moderation expected over the medium term.

Working capital intensive nature of operations

DFPL is involved in manufacturing of feed for poultry by importing raw materials from various countries. Grains are imported from India as well as purchased locally through open credit and feed supplements and soya related products are procured from China, Thailand, etc through Letter of Credit. The company makes payment to suppliers within a month. DFPL needs to keep the inventory for smooth operations and extend credit to their customers, which lead to reliance on working capital limits. The lead time for the procurement of raw material is up to two months. With average collection period of 82 days, average inventory period of 50 days

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

and average creditors of 51 days, the operating cycle of DFPL in FY22 stood at 82 days. The working capital intensity of the business had led to high reliance of the company on the bank finance for working capital requirements. This led to higher dependence on borrowings to meet working capital needs.

Foreign exchange fluctuation risk on imports

The prices of the DFPL'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 stood at around 82% of the total operating income of the company during FY23. Furthermore, all the supplement requirement is met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. Also, the company is not able to mitigate such risk due to dynamic business environment and limited scope for forward booking and hedging. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

Vulnerability of the industry's performance to outbreaks of flu and other diseases

Irregular outbreaks like Corona Virus, bird flu and avian flu are historically known to affect the poultry industry. These outbreaks lead to a drastic fall in demand followed by crash in poultry prices and led to heavy loss to poultry farmers as government agencies destroy chicks in substantially high numbers to prevent disease outbreak. The vulnerability of such flu outbreaks always exist which may impact the fortunes of the companies related to the poultry sector. There have been several instances of disease outbreaks in poultry products in Nepal, impacting the poultry market and thereby reducing the demand suddenly and inventory losses. The DFPL has thus developed its farms at different locations to reduce the chances of spread of any contagious disease.

Fragmented and competitive nature of industry

The poultry feed industry is highly competitive and fragmented with many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition. The industry has also attracted foreign investment from India and China. The Skylark Agro Private Limited and Nimbus International Company Private Limited are established with Indian investment whereas Nepal Wellhope Agri Tech Private Limited and New Hope Agro Business Private Limited are established with Chinese investment. The domestic players like DFPL face difficulties to compete with technologically well-equipped foreign invested companies. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feeds industry.

Exposure to volatile interest rate

The company'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 promoters with wide experience in poultry industry and related businesses**

DFPL derives strength from the parentage of Dolphin group which provides the company with the required financial flexibility for its business and technical/managerial resources. DFPL has an established operational track record of more than 10 years in the Nepalese market and is managed under the overall guidance of its eight members Board of Directors (BoD) with wide experience in the food processing and trading sector. Mr. Surya Bahadur Thapa is the chairman of DFPL and has a decade of experience in the food industry. Mr. Kul Bahadur Thapa, handles marketing sector of the company. He has been directly involved in development of

new markets and currently in Dolphin Feeds Private Limited. From past five Years. Mr. Tirtha Bahadur Thapa, the director and a graduate of Public Health oversees the operation sector of the company. He has a decade of experience in the sector and is involved with DFPL for past eight years.

Established brand and marketing network

DFPL commenced its operation in 2012 and has an established customer-based distribution network of more than ~300 customers in FY21 comprising of wholesalers and retailers. DFPL sells its feeds products under a single registered brand 'Dolphin Pellet Dana' for its varieties of feeds including broiler feed, layers feeds, kuroiler feeds, and cattle feed packaging in 30-50 kg bags. The customers include both dealers and retailers. Sales made to dealer is on 30 days' credit basis and DFPL has taken bank guarantee from majority of dealers to secure such credit sales; whereas for the sales made to retailers usually no credit periods are given.

Locational advantages for import of raw materials with adequate storage capacity

DFPL's manufacturing facility is located in Kohalpur Municipality, Banke District, Nepal and lies adjacent to Nepalgunj city, which is considered as a gateway to Indo-Nepal borders. Since the procurement of raw materials is mainly in the form of imports and routes through Indian ports, the factory's proximity to Indian border remains added advantage in terms of freight cost saving. With modern storage solutions and adequate storage silos, the production and storage infrastructure of the company is of international standard.

Moderate financial profile characterized by sustained growth in scale of operations

DFPL derives its income mainly from sale of poultry feeds (Broiler, Layers and Kuroiler Feeds). In addition to that, the company also produces livestock feeds (Cattle, Pig and Goat) in small quantity. Total operating income (TOI) of AFPL has increased by ~46% to Rs. 2,146 Mn in FY23 from Rs. 1,464 Mn in FY22 mainly due to increase in quantity sold of feeds (to 29,446 MT in FY23 from 19,162 MT in FY22). Consequently, PBILDT increased to Rs. 146 Mn during FY23 from Rs. 91 Mn during FY22. PBILDT margin increased slightly at 6.82% in FY23 from 6.19% in FY21, however remains lower due to high cost of raw materials. However, PAT margin stood at 0.02% during FY23 which decreased from 1.40% during FY22 due to significant increase in interest expenses of Rs. 132 Mn in FY23 from Rs. 54 Mn in FY22. Gross Cash Accruals also decreased to Rs. 14 Mn during FY23 from Rs. 36 Mn during FY22.

About the Company

Dolphin Feeds Private Limited (DFPL), incorporated on July 12, 2019, for manufacturing feed for poultry, having manufacturing facility in Kohalpur, Banke, Nepal. DFPL took over the manufacturing business of its sister concern, Dolphin Adhunik Dana Udhog (DADU), which was operational since 2013. The company is involved in manufacturing poultry and other livestock feeds, with major products being broiler and layer feeds.

Financial Performance

Particulars	FY22 (A)	FY23 (A)
Income from operations	1,464	2,146
PBILDT Margin (%)	6.19	6.82
Overall Gearing (times)	5.43	5.03
Interest coverage (times)	1.67	1.11
Current Ratio (times)	1.03	102
Total Debt to Gross Cash Accruals (times)	24.96	69.42

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	405.00	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	750.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Proposed	5.00	CARE-NP A4 [A Four]
Total Facilities		1,160.00	

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