

**Rating Rationale  
Asian Feeds Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	14.67	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	490.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>504.67</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (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 Asian Feeds Private Limited (AFPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of AFPL is constrained by working capital intensive nature of operations coupled with elongated operating cycle, leveraged capital structure including moderate debt coverage indicator at the end of FY19 (refer to 12 month’s period ending Mid July, 2019) and exposure to volatile interest rates. The rating is also constrained by exposure to raw material price volatility including its availability, foreign exchange fluctuation risk on imports which partly remains unhedged. Besides this, concentration of business over Poultry Feeds coupled with inherent risk of poultry business, and stiff competition from other players in feeds industry are also rating weaknesses. The ratings, however, derives strength from experienced board members of the company, steady growth in total operating income along with increasing trend of profitability margin, established dealer network, and growth prospect of the industry. The ability of the company to achieve growth in revenue along with improvement in leverage and operating cycle while maintaining its profitability margins will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Working capital intensive nature of operation coupled with elongated operating cycle***

Feed business is working capital intensive in nature as it has to maintain certain level of inventory of raw material and finished goods to avoid stock out problem as the availability of raw material is seasonal and monsoon sensitive and major portion of raw material has to be imported. AFPL’s operating cycle elongated on y-o-y basis in the last 4 years (156 days in FY19 from 77 days in FY16) mainly due to increase in debtor collection period (121 days in FY19 from 70 days in FY16) and inventory holding period (88 days in FY19 from 78 days in FY16). Debtors collection period increased due to stiff competition in the industry resulting in delay in payments from dealers. Similarly, the inventory holding period increased as the raw material has been purchased in bulk quantity whenever raw material price is low. The year-end working capital utilization against the sanction limit was 84% in FY19.

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

***Leveraged capital structure including moderate debt coverage indicators***

The overall gearing ratio of AFPL was high at 3.58x at the end of FY18 which improved to 2.72x at the end of FY19 due to increase in Networth on back of infusion of additional capital by the promoters and accretion of profits to Networth. Total Debt/GCA was high at 17.79x in FY18 which decreased to 12.85x in FY19 on back of increase in Gross Cash Accruals (GCA). Further, the interest coverage ratio improved to 2.07x in FY19 from 1.83x in FY18.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate is changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) is changed by change in liquidity position which leads to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 years. Therefore, funding from BFIs are exposed to volatile interest rate.

***Exposure to raw material price volatility including its availability***

Grains and Oil Cakes are the major raw material which contributes around 75% to 80% of total raw material cost of AFPL. AFPL has not entered into long term contract with supplier of raw material as a result it is exposed to the risk associated with volatility in raw material price and timely availability. Similarly, harvest of grains is seasonal which is affected by monsoon, flood, landslide etc.

***Foreign exchange fluctuation risk on imports which partly remains unhedged***

AFPL imports major portion of raw material such as grains, oil and oil cake, meat and bone meal, and feed supplement from India and third country. The pricing of imported raw material from third country is in USD. During FY19, ~12% of total purchases were made in USD. AFPL has adopted the practice of hedging for fluctuation in foreign currency value however, the foreign exposure was not hedged fully which exposes it to the risk associated with the fluctuation in foreign currency exchange rate.

***Concentration of business over poultry feeds and inherent risk of poultry business***

AFPL derives its income from sale of poultry feeds, livestock feeds, breeder feeds and fish feeds. Among them poultry feeds like Broilers Feeds and Layers Feeds contributed major portion of sales revenue. During FY19, ~82% of total sales revenue was generated from Broilers Feeds (~ 86% during FY18) followed by ~13% from Layers Feeds (~10% during FY18). Poultry business remains susceptible to inherent risk, such as diseases like Bird Flu which could impact sales of poultry feeds.

***Stiff competition from other players in feeds 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. AFPL is facing competition from other players in the industry. Further, inherent risk such as perishable nature of product, constraints in transportation, diseases, sensitive for storage may affect feeds industry. Besides this,

ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feeds industry.

### **Key Rating Strengths**

#### ***Experienced Board Members of the Company***

AFPL has 5 board of directors chaired by Mr. Bashu Dev Joshi, who manages trade, finance and administration department of the company and has ~2 decades of experience in different businesses. Mr. Sujan Thapa, director, manages AFPL's production and inventory department and is engaged in IT business since more than ~2 decades. Mr. Devi Prasad Gautam, director, manages AFPL's sales and marketing department and has been engaged in poultry feeds trading business for more than ~1 decade.

#### ***Steady growth in total operating income along with increasing trend of profitability margin***

AFPL derives its income from sale of poultry feeds, livestock feeds, breeder feeds and fish feeds. Total revenue of AFPL has increased by 6.58% to Rs 1,312 Mn during FY19 from Rs. 1,231 Mn during FY18 (CAGR of 13.89% over last 4 years ended Mid July, FY19). Growth in revenue, despite decrease in sales quantity, was mainly due to increase in the price realizations of major products such as Broiler Feeds and Layers Feeds. PBILDT of the company increased by 27.46% to Rs. 94 Mn during FY19 from Rs. 74 Mn during FY18. Further, PBILDT margins are in increasing trend which increased to 7.14% in FY19 from 5.97% in FY18 (4.41% in FY17). Company's net profit grew by 61.87% to Rs 27 Mn during FY19 from Rs 17 Mn in FY18.

#### ***Established dealer network***

AFPL commenced its operation in 2011 and has established dealer network of 405 dealers in FY19 (316 dealers in FY18) across 31 districts. It has two depots located in Basundhara, Kathmandu and Parsyang, Pokhara for making depot sales. Sales are normally made to dealer on credit basis and AFPL has taken bank guarantee, cheque guarantee and land guarantee from majority of dealers to secure credit sales. AFPL has not reported any bad debt during FY17, FY18 and FY19.

#### ***Growth prospect of the industry***

As per the report published by ministry of agriculture and livestock development, production of meat and eggs are in increasing trend. Meat production registered a growth of 3.26% in FY17 and 4.10% in FY18 with chicken meat production registering a growth of 4.05% in FY17 and 4.98% in FY18. Further, egg production registered a growth of 3.38% in FY17 and 11.83% in FY18. Poultry Feeds (mainly Broilers) being major business segment of AFPL and increasing trend of meat and egg industry is likely to benefit feed industry players like AFPL. Poultry feed is given to chicken as a better substitute of traditional feeds (i.e. Oil cakes, Cereals etc.) and in view of the expected rise in consumption of chicken meat and eggs, poultry farming is expected to grow which indicates high growth potential for feeds industry. Besides this, commercial farming of livestock (Cattle, Pig, Goat, Fish etc.) is also growing in Nepal.

**About the Company**

AFPL was incorporated on September 29, 2011 as private limited company and is promoted by individual promoters from different background. AFPL is ISO 9001:2008 certified company. Its registered office is located in Kathmandu, Nepal and the plant is located at Budiganga Rural Municipality, Morang, Nepal. It has been manufacturing poultry and other livestock feeds and distributing products within Nepal, mainly focused in Eastern and Central part. It has Rs 148 Mn paid up equity share capital at the end of FY19 contributed by ten shareholders.

**Brief Financial Performance during the last 3 years is as follows:**

(Rs in Million)

For the year ended Mid July	FY17(A)	FY18(A)	FY19(UA)*
Income From Operations	1,227	1,231	1,312
PBILDT	54	74	94
PAT	8	17	26
Overall Gearing (times)	4.20	3.58	2.72
Interest Coverage (times)	1.86	1.83	2.07

\*Unaudited

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**Annexure 1: Details of the Facilities rated**

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	14.67	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	470.00	CARE-NP A4
Short Term Bank Facilities	Non Fund Based Limits	20.00	CARE-NP A4
<b>Total Bank Facilities</b>		<b>504.67</b>	