

**Rating Rationale**  
**Jay Shree Foods Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	75.55	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	924.45	CARE-NP A3 [A Three]	Assigned
<b>Total Facilities</b>	<b>1,000.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the long-term bank facilities and ‘CARE-NP A3’ to the short-term bank facilities of Jay Shree Foods Private Limited (JFPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to bank facilities of JFPL derives strength from established and adequate track record of operations, resourceful promoters along with experienced management team in the related field, comfortable financial profile characterized by healthy growth in sales and profitability, moderate gearing levels and debt service coverage indicators of the company. The ratings also factor in stable demand of rice products being major Nepalese diet, product diversification, own brand and established marketing setup with locational advantage for raw materials. The ratings, however, are constrained by working capital intensive nature of operations, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry and exposure to volatile interest rates. The ability of company to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

***Impact of Covid-19 on the business of the company***

With global outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization, which has affected Nepal as well, Government of Nepal (GoN) has imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. However, GoN had provided relaxation in operation of companies dealing in essential items during the lockdown period. Considering the same, JFPL has been running its normal operations and revenue of the company has not been impacted due to effects of lockdown. Further, the central bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide temporary relief. JFPL availed this facility and made its debt repayments for quarter ending mid-April 2020 in mid-May, 2020.

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

## Detailed Description of the Key Rating Drivers

### *Key Rating Strengths*

#### ***Established and adequate track record of operations, resourceful promoters along with experienced management team in the related field***

The promoters of JFPL have an experience of more than three decades in the food industry. JFPL is managed under the overall guidance of its two members Board of Directors (BoD) which includes experienced businessmen with wide experience in the food processing and trading sector. Mr. Pawan Kumar Agrawal is the managing director of JFPL and has 38 years of experience in various types of business. The promoters of the company have also been infusing funds into the company in the form of equity to fund the operational needs of the company on back of increasing operations of the company.

#### ***Comfortable financial profile characterized by healthy growth in sales and profitability***

Total revenue of the company increased by ~17% during FY19 over FY18, majorly on account of increase in total quantity sold with increasing customer base followed by improvement in average price realization of its products. PBILDT of the company increased by ~21% in FY19 over FY18, on back of growth in revenue. As a result of increase in PBILDT, the net profit of the company also improved during FY19. The ability of JFPL to manage growth in the operations, maintaining the profitability margins and rationalization its debt through efficient working capital management would be key rating sensitivities.

#### ***Moderate gearing levels and debt service coverage indicators of the company***

Debt-Equity ratio of the company has been low at 0.44x at the end of FY19 which improved from 0.57x at the end of FY18 upon repayment of term loan coupled with increase in networth of the company upon accretion of the profit followed by infusion of fresh capital by the promoters. Overall gearing ratio of the company was moderate at 2.89x at the end of FY19 which improved from 3.02x at the end of FY18 despite increase in working capital loans during FY19. JFPL's interest coverage ratio was moderate at 1.83x in FY19. Total debt/ Gross Cash Accruals of the company was high at 13.09x during FY19 which improved slightly from 13.88x during FY18.

#### ***Major Nepalese diet leading to stable demand***

The demand prospect of rice industry has remained stable as rice is considered one of major diet of Nepalese population. Rice carries special cultural, religious and traditional values in Nepal. Further, products such as beaten rice and puffed rice are considered staple diet in various parts of the country. The company has been able to achieve CAGR growth of around 28% in the last four years ending FY19. Due to availability of products with varied packaging option ranging 1 kg to 30 kgs, JFPL has been able to attract both Business-to-Business (B2B) and Business-to- Customer (B2C) customer segment.

***Product diversification and own brand***

The company sells its products under various registered brands established in Nepalese market. This has provided leverage to the company in front of new players entering the industry. JFPL sales steam rice under 16 brands and long grain rice under 4 brands and beaten rice are sold under 3 brands with major brands being Bhansaghar and Mangalam. Further, puffed rice and soya nuggets are sold under a different brand name. All these products are staple diet of every Nepalese households.

***Established marketing setup with locational advantage for raw materials***

JFPL sells its products all over Nepal and has a customer base of more than 600 customers spread across all major cities in the country. These sales are made through direct marketing to existing as well as new customers from the factory and from corporate office in Kathmandu. JFPL has its offices and godown located at various parts of the country i.e. Nepalgunj, Bhairahawa, Narayangarh, Birgunj and Biratnagar which has eased procurement of raw material due to easy availability followed by favourable pricing terms. Further, the factory is located nearby Indian border from where JFPL has been getting locational benefit for import of raw materials at lower transportation cost.

**Key Rating Weaknesses*****Working capital intensive nature of business***

JFPL is operating a rice mill and the raw materials are procured both locally and by import. JFPL has to keep the inventory for smooth operations and extend credit to their customers, which lead to reliance on working capital limits. JFPL generally allows three months credit period to its customers and keeps inventory for around two months. Further, the average credit period allowed to the company during FY19 was at 15 days. Total operating cycle of the company was 91 days in FY19. This had led to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against drawing power was around 84% for 12 months ending mid-June, 2020.

***Susceptibility to price fluctuation of seasonal agro products***

JFPL is engaged in processing of paddy and rice. 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. Further, the supply is dependent upon availability of seed, impacts of pests, monsoon during the particular year and climatic condition, exposing the fate of the company's operation to vagaries of nature.

***Fragmented and competitive nature of industry***

Import and processing of rice is highly fragmented due to presence of several organised/ unorganised players owing to low entry barrier and low technology and capital requirement. Low product differentiation of JFPL's product results in high competition from other players including traders. Considering the fragmented and competitive nature of industry, the millers have low pricing power.

Further, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

**Exposure to volatile interest rates**

Nepalese banking sector fixes lending interest rate based on quarterly base rate and interest rate can be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from banks and financial institutions is subject to volatile interest rate.

**About the Company**

JFPL is a private limited company established in 2009 for processing of paddy into rice, value addition by ageing of purchased rice and production of beaten rice, puffed rice and soya nuggets, having plant in Gaidakot, Nawalparasi, Nepal. JFPL deals in varieties of rice such as long grain rice, jeera rice and other products and sells them under 16 different brands with major brands being Bhansaghar and Mangalam.

Brief financial performance of JFPL during last 3 years is given below:

Particulars	FY17	FY18	FY19
	(Audited)		
Income from Operations	1,328	1,913	2,244
PBILDT	65	97	116
PAT	9	13	18
Overall Gearing (times)	2.20	3.02	2.89
Interest coverage (times)	2.14	1.86	1.83

(Rs. Million)

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**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	75.55	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Limit	841.50	CARE-NP A3
Short Term Bank Facilities (Proposed)	Working Capital Limit	72.95	CARE-NP A3
Short Term Bank Facilities	Non-Funded Limit	10.00	CARE-NP A3