

Rating Rationale
Narayani Modern Pulses Industries

Rating

Facilities	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	1,592.50	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	1,592.50		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A4+’ to the short-term bank facilities of Narayani Modern Pulses Industries (NMPI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of NMPI is constrained by leveraged capital structure and weak debt service coverage indicators, working capital intensive nature of business, susceptibility to price fluctuation of seasonal agro products and high reliance on import and foreign exchange fluctuation risk on such imports. The rating is also constrained by fragmented and competitive nature of industry, exposure to volatile interest rates and partnership nature of constitution. The Ratings, however, derives strength from established business group and experienced promoter in the related field, moderate financial performance with healthy growth in sales and profitability in last two years, demand of pulses and locational advantage being located near from Indian border. The ability of the firm to manage the impact of COVID-19 and 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 firm

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognised as Pandemic by World Health Organization on March 11, 2020, has affected Nepal as well, with Nepal reporting its first case on January 24, 2020. With that, Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations which resulted in slowing down of the economic activities. The lockdown has been extended multiple times with current extension ended on June 14, 2020. However, GoN had provided relaxation in operation of companies dealing in essential items during the lockdown period. Considering the same, NMPI was closed for around 10-15 days which impacted the sales of NMPI. Nepal Rastra Bank has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. However, NMPI has made its interest repayments for quarter ending mid-April 2020.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Leveraged capital structure and weak debt service coverage indicators

NMPI's capital structure is highly leveraged with overall gearing ratio of 12.24x at the end of FY19 due to high utilization of loan by the firm for its working capital needs and lower networth of the firm. Overall gearing ratio of the firm however improved from 19.82x at the end of FY18 on the back of increase in networth of the firm due to increase in partner's capital and accretion of profits. Total Debt to Gross Cash Accruals (GCA) was high at 36.07x in FY19 though improved from 156.66x in FY18 due to increase in PBILDT of the firm. Interest coverage ratio of the firm was low at 1.31x in FY19 which improved from 1.09x in FY18 due to increase in PBILDT.

Working capital intensive nature of business

The operations of NMPI are working capital intensive with majority of purchases from foreign countries having short credit period. NMPI's average inventory holding period remained at ~2 months and average collection period at more than 100 days at the end of FY19. This led to high operating cycle of more ~5 months leading to high reliance of the firm on bank finance for the working capital needs. Average working capital utilization of NMPI has been at ~82%.

Susceptibility to price fluctuation of seasonal agro products

NMPI is engaged in import and processing of pulses primarily Masoor Dal (Red Lentils), Yellow Peas and Green Peas. Prices of pulses 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 monsoon during the particular year as well as overall climatic condition, exposing the fate of the firm's operation to vagaries of nature.

High reliance on import and Foreign exchange fluctuation risk on such imports

NMPI is highly reliant on imports as its primary source of pulses and most of them are imported from Canada and USA payment of which are made in USD. Hence, NMPI is exposed to the risk associated with the fluctuation in foreign currency exchange rate. NMPI reported foreign exchange fluctuation gain of Rs. 2.46 Mn in FY19 which was Rs. 0.45 Mn in FY18.

Fragmented and competitive nature of industry leading to thin profitability margins

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

Exposure to volatile interest rates

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

Partnership nature of constitution

NMPI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners which may affect financial flexibility of the firm.

Key Rating Strengths***Established business group and experienced partner in the related field***

NMPI is part of Chachan Group which is one of the established business group in Nepal. The group is promoted by Chachan family and is involved in various businesses like cement manufacturing, edible oil refinery, import and trading of fertilizers, manufacturing of leather products. Mr. Babu Lal Chachan, heads the overall group as Chairman of the group and has more than 50 years of experience. NMPI is promoted by two partners, Mr. Mohan Lal Agrawal and Mr. Shrawan Kumar Chachan both sharing 50% each from the firm. Mr. Mohan Lal Agrawal has been involved in group's pulses business since last 45 years whereas Mr. Shrawan Kumar Chachan is involved in Oil and pulses business for last 40 years.

Moderate financial performance with healthy growth in sales and profitability in last two years

NMPI generates its revenue from sales of various pulses. Total revenue of NMPI has increased by CAGR of 30.19% over 3 years period ending FY19. Firm reported a growth of ~41% in revenue during FY19 over FY18 primarily due to increase in quantity sold during FY19. NMPI reported growth in PBILDT from Rs. 142 Mn in FY18 to Rs. 192 Mn in FY19 due to increase in total sales. However, PBILDT margin declined to 7.13% in FY19 as compared to 7.51% in FY18. PBILDT margin declined in FY19 on account of increase in cost of sales as % of net sales from 92.40% in FY18 to 93.17%. Being present in the industry of processing and trading of agriculture commodities, the profitability of the firm is exposed to fluctuation in prices as well as availability of agriculture commodities.

Demand outlook of the products

Demand of pulses has been rising in Nepal with pulses being part of staple food of Nepal. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal giving importers like NMPI a favourable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

Locational advantage

NMPI's plant is located in Bara district of Nepal. The raw materials are transported by road through Raxaul Boarder of India which is ~12kms from the plant. Furthermore, plant site is located within ~11kms from Birgunj dry port in Nepal-India Border which makes the location of the plant nearness to the big Indian State Bihar and provides NMPI an advantage of supply of raw material at lower transportation cost. NMPI also uses Birgunj Border, either via railways or via road.

About the Firm

Narayani Modern Pulses Industries (NMPI) is a partnership firm established in 1994 to process, import and export various kinds of Pulses & Grains. NMPI is registered with Department of Cottage and Small Scale Industries and has total capacity of 30,000 Metric Ton Per Annum. NMPI deals in various kinds of pulses like Masoor Dall (Red Lentils), Yellow Peas Dall, Green Mung Dall etc. NMPI caters to its customers through sales depot in Kathmandu, Pokhara, Itahari, Bhairahawa, Nepalgunj and Janakpur.

Brief Financial Performance during last 3 years:

(Rs in Million)

Particulars	FY17 (A)*	FY18 (A)*	FY19 (A)*
Income from operations	1,308	1,890	2,687
PBILDT	23	142	192
Gross Cash Accruals	(52)	8	36
Interest Coverage ratio (times)	0.31	1.09	1.31
Overall gearing (times)	21.89	19.82	12.24

*Audited

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Annexure 1: Details of the facilities rated

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Working Capital	1,578.50	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	14.00	CARE-NP A4+
Total		1,592.50	