

## Rating Rationale

### Surya Pulse and Processing Private Limited

#### Rating

Facilities	Amount (Rs. In Million)	Rating <sup>1</sup>	Remarks
Long Term Bank Facilities	23.38	CARE-NP BBB-[Triple B Minus]	Assigned
Short Term Bank Facilities	976.62	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 rating of ‘CARE-NP A3’ to the short-term bank facilities of Surya Pulse and Processing Private Limited (SPPPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of SPPPL derives strength from experienced promoter, comfortable financial performance with growth in profitability for the period ended mid-July 2019, moderate capital structure and moderate debt service coverage indicators, demand of pulses and locational advantage being located near from Indian border. The ratings, however, are constrained by working capital intensive nature of business, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry. The rating is also constrained by high reliance on import and foreign exchange fluctuation risk on such imports and exposure to volatile interest rates. The ability of company 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.

#### Detailed Description of the Key Rating Drivers

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

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization on March 11, 2020, has affected Nepal as well. 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. However, GoN had provided relaxation in operation of companies dealing in essential items during the lockdown period. Considering the same, SPPPL has been running its normal operations and revenue of the company has not been impacted due to effects of lockdown. Nepal Rastra Bank (NRB) has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. However, SPPPL has made its debt repayments for quarter ending mid-April 2020 for which company has been eligible for 10% rebate on interest charged for the quarter

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

**Key Rating Strength*****Experienced promoters in the related field***

SPPPL started its commercial operation in July 2013 and is involved in processing and supplying Dal under the brand name “JUNALI RAAT”. SPPPL is promoted by Minda family who are involved in various businesses of processing and trading pulses, rice and rice seeds. Mr. Sanjaya Kumar Minda heads the overall business as Chairman of the company and has more than 30 years of experience in similar nature of business.

***Comfortable financial performance with growth in profitability in past years***

SPPPL generates its revenue from sales of various pulses with ~60% of sales consisting of Red Lentils, Yellow Peas and Green Peas. Total revenue of SPPPL has increased by CAGR of 5.55% over 3 years period ending FY19. The company reported increase of 20.41% in revenue during FY19 over FY18 due to increase in quantity sold. Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is exposed to fluctuation in prices as well as availability of agriculture commodities. SPPPL reported PAT margin of 2% in FY19 with improvement over FY18, mainly due to growth in PBILDT and decline in the interest cost during the year.

***Moderate capital structure and moderate debt service coverage indicators***

SPPPL’s capital structure was moderate with overall gearing ratio of 1.99x at the end of FY19 however deteriorated from 1.81x at the end of FY18 due to higher utilization of working capital loans at the year-end as a result of increase in year-end debtors. SPPPL has a moderate debt service coverage ratio with company reporting Total Debt to Gross Cash Accruals (GCA) of 15.72x in FY18 which although improved during FY19 to 10.25x due to improvement in GCA. Interest coverage ratio of the company was comfortable at 2.63x in FY19 which improved from 1.67x in FY18.

***Locational advantage***

SPPPL’s plant is located in Dhajjhan rural municipality, Jhapa district of Nepal. The raw materials are transported by road through Kakarvitta boarder of Nepal which is ~10kms from the plant which makes the location of the plant nearness to the Indian State West Bengal and provides SPPPL an advantage of supply of raw material at lower transportation cost. Further, it has depot in Kathmandu and Jhapa and has distributors across eastern and central part of Nepal.

***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 SPPPL a favourable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

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

The operations of SPPPL are working capital intensive with majority of purchases from foreign countries having short credit period. SPPPL's average inventory holding period remained at ~2-3 months and average collection period at more than 35 days at the end of FY19. This led to operating cycle of around 4 months leading to high reliance of the company on bank finance for the working capital needs. Average working capital utilization of SPPPL during past 12 months stood at 88%.

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

SPPPL 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 company's operation to vagaries of nature.

***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 SPPPL'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.

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

SPPPL is highly reliant on imports as its primary source of pulses and most of them are imported from Australia, Burma and Canada. However, company doesn't hedge its foreign currency exposure which exposes it to the risk associated with the fluctuation in foreign currency exchange rate.

***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.

**About the Company**

Surya Pulse and Processing P. Ltd. (SPPPL) is a private company established in 2008 and started its commercial operation from July 2013 to process, import and export various kinds of Pulses & Grains.

SPPPL is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 19,950 Metric Ton Per Annum. SPPPL deals in various kinds of pulses like Masoor Dal (Red Lentils), Australian Channa/ Dal, Maas Dal (Urad/Black Matpe), Green Mung Dal, Arahar Dal (Pigeon Peas), Hariyo kerao (Green Peas), Seto Kerao (Yellow Peas) etc.

**Brief Financial Performance during last 3 years:**

(Rs in Million)

Particulars	FY17 (A)*	FY18 (A)*	FY19 (A)*
Income from operations	1,385	1,205	1,451
PBILDIT	59	63	84
PAT	6	8	29
Interest Coverage ratio (times)	1.62	1.67	2.63
Overall gearing (times)	1.84	1.81	1.99

\*Audited

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

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	23.38	CARE-NP BBB-
Short Term Bank Facilities	Working Capital	916.62	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	60.00	CARE-NP A3
<b>Total</b>		<b>1,000.00</b>	