

Rating Rationale

Triveni Dal & Oil Industries Private Limited

Rating

Facility/ Instrument	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	46.75	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	570.00	CARE-NP A4+ [A Four Plus]	Assigned
Total Bank Facilities	616.75		

Details of 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 Triveni Dal & Oil Industries Private Limited (TDOI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TDOI are constrained by fluctuating financial profile of the company during the last three years ending mid-July 2019 with leveraged capital structure, large inventory holding period resulting in long operating cycle and intensive working capital requirement, high reliance on import and foreign exchange fluctuation risk on such imports. The ratings also factor in susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry and exposure to volatile interest rates. The ratings however, derive strength from established and long track record of operations along with strong promoters and experienced management team, growth in sales and profitability of the company in FY19 (Audited, refers to 12 months period ended mid-July 2019) after weak financial performance during FY18, moderate debt service coverage indicators at the end of FY19, demand for pulses being an essential item and locational advantage of the processing mill. The ability of the 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 global outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization, 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, TDOI 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

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

temporary relief. However, TDOI 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.

Key Rating Weaknesses

Large inventory holding resulting in long operating cycle and intensive working capital requirement

The operations of TDOI are working capital intensive with majority of raw materials being imported, have short credit period. The collection period of the company remains at a level of 2 months and the average inventory period of the company remains around 5 months. This leads to an overall operating cycle of the company of around 7 months leading to high reliance of the company on bank finance for the working capital needs. The month end working capital utilization against the drawing power of the company remained high.

Susceptibility to price fluctuation of seasonal agro products

TDOI is engaged in import and processing of pulses primarily Masoor Dal (Red Lentils), Yellow Peas and Green Peas. Prices of pulses are volatile in nature and being agro products they are also 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

Import and processing of pulses is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Further, low product differentiation of TDOI'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.

Exposure to volatile interest rates

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

Key Rating Strengths

Established and long track record of operations along with strong promoters and experienced management team

TDOI has an operational track record of more than 20 years and derives strength from its strong promoter group. Majority of shareholding i.e. 75% is held by individuals belonging to the Sanghai family brothers. They are one of the largest business group of Nepal involved in diversified business of banking, insurance, manufacturing, trading and other businesses. The promoters of company have an experience of over two decades in trading of imported and processed pulses. Company is managed under the overall guidance of its two member Board of Directors

(BoD) who possesses wide experience in the related field. The company is chaired by Mr. Birendra Kumar Sanghai who is involved in various business of the Group. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of TBC.

Growth in sales, margins and profitability of the company in FY19 after weak financial performance during FY18

TDOI reported total revenue of Rs. 878 Mn in FY19 with a growth of ~55% over FY18. The export sales to Bangladesh accounted for ~31% of the total revenue in FY19 and rest of the sales were in domestic market. During FY18, the company incurred losses mainly due to crash in the global pulses prices. PBILDT of the company improved during FY19 due to substantial growth in sales coupled with reduction in cost of sales as % of sales to 83.90% which was 104% during FY18. Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is always exposed to fluctuation in prices as well as availability of agriculture commodities. The ability of TDOI to manage growth in the operations & maintaining the profit margins and rationalization of its inventory levels through efficient working capital management would be the key rating sensitivities. During 11MFY20, the company achieved net sales of Rs. 1,129 Mn which comprised of export sales of ~25% of total revenue.

Leveraged capital structure and debt service coverage indicators

Company's capital structure is leveraged with overall gearing ratio of 2.68x at the end of FY19 due to high working capital utilization of the company to finance its working capital needs and introduction of promoter's loan of Rs. 41 Mn during the year. Despite, increase in borrowings of the company overall gearing ratio improved at the end of FY19 on the back of increase in net-worth of the company due to accretion of profit. Till the end of FY19, the company did not have any term loan outstanding from Banks/Financial Institutions in its books. Total Debt to GCA was moderate 6.49x in FY19 which improved from -ve 7.08x in FY18 due to high cash generated during the year from business operations. Interest coverage ratio of the company also improved to 4.14x in FY19 from -ve 0.82x in FY18 due to increase in PBILDT of the company. During FY20, the company has availed term loan of Rs. 55 Mn to purchase new plant and machinery of Rs. 60 Mn to increase its production capacity by 4 tonnes per day.

Locational advantage

The company's plant is located in Chattapipra, Bara district of Nepal. The raw materials are transported by rail from the Indian port to the 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 provides TDOI an advantage of supply of raw material at lower transportation cost.

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

About the Company

Triveni Dal & Oil Industries Pvt. Ltd. (TDOI) is a private limited company incorporated on March 10, 1995 to process, import and export various kinds of pulses & grains and is in operations for last 25 years. TDOI is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 18,000 Metric Ton Per Annum.

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 (A)*
Income from Operations	420	566	878
PBILD	31	(21)	136
PAT	11	(48)	78
Overall Gearing (times)	1.70	2.78	2.68
Interest coverage (times)	2.05	(0.82)	4.14

*Audited

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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	46.75	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	220.00	CARE-NP A4+
Short Term Bank Facilities	Non-fund based limits	350.00	CARE-NP A4+
Total		616.75	