

**Rating Rationale  
Asian Feeds Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.80	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	490.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>491.80</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long term bank facilities and ‘CARE-NP A4’ assigned 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 subdued financial performance during FY20 (Audited, refers to 12 months period ended Mid July 2020), working capital intensive nature of operations coupled with elongated operating cycle leading to high utilization of working capital limits, highly leveraged capital structure coupled with deterioration in the debt service coverage indicators during FY20 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. Besides this, concentration of business over poultry feed 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, 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**

*Subdued financial performance during FY20*

AFPL derives its income from sale of poultry feeds (Broiler, Layers and Giriraj feed), livestock feed (Cattle, Pig and Goat), breeder feed and fish feed. Total revenue of AFPL has decreased by 2.99% to Rs 1,272 Mn during FY20 from Rs. 1,311 Mn in FY19 mainly due to decrease in quantity sold in FY20 on account of the COVID-19 impact on its operation. PBILDT of the company decreased by 17.81% during FY20 mainly due to decline in revenue, increase in administrative expenses and forex loss. The profit of the company declined substantially during FY20 on back of decline in PBILDT.

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

Feed business is working capital intensive in nature because it has to maintain certain level of inventory of raw material to avoid stock out problem as the availability of raw material is seasonal and monsoon sensitive and

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

major portion of raw material has to be imported. Apart from this, the import of goods from third countries are against the letter of credit from banks and on ~80% of import from India suppliers provide credit period of ~30 to 60 days. AFPL's operating cycle elongated on y-o-y basis in the last 5 years (i.e. 184 days in FY20 from 77 days in FY16) mainly due to increase in debtor collection period (i.e. 149 days in FY20 from 70 days in FY16) and inventory holding period (i.e. 106 days in FY20 from 78 days in FY16). Debtors' collection period increased due to impact of COVID-19 in the economy. Also, inventory holding period increased because raw material has been purchased in bulk quantity whenever raw material price is low. The year-end working capital utilization against year-end sanction limit was 100% in FY20.

#### ***Highly leveraged capital structure coupled with high debt coverage indicators***

The overall gearing ratio of AFPL was high at 2.25x at the end of FY19, which further deteriorated to 3.48x at the end of FY20 on account of increase in working capital loan utilization by the company as compared to the accretion of the profits. Total Debt/GCA was high at 10.44x in FY19 which deteriorated substantially to 26.81x in FY20 on back of increase in total debt coupled with the declined in the Gross Cash Accruals. Further, its interest coverage ratio declined to 1.64x in FY20 from 2.09x in FY19.

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

Grains and Oil Cake are the major raw material which contributes around 80 to 85 % 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 its timely availability. Average price (per kg) of grains increased to Rs. 31.30 during FY20 (FY19: Rs. 27.94). Further, harvest of grains is seasonal which is affected by monsoon, flood, landslide etc.

#### ***Foreign exchange fluctuation risk on imports***

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 FY20, ~38% of total purchases were made in USD. The company has not hedged its USD exposure which exposes it to the high risk associated with the fluctuation in foreign currency exchange rate. Also, company reported the forex loss of Rs. 12 Mn during FY20.

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

AFPL derives revenue from sale of feeds for Cattle, Broilers, Pig, Layers and Giriraj. Among them Broilers feed and Layers feed contribute major portion of sales revenue. During FY20, ~84% of total sales revenue was generated from Broilers feed (FY19: ~82%) followed by ~12% from Layers feed (FY19: ~13%). Poultry business remains susceptible to inherent risk, such as diseases 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 (bird flu), may affect feeds industry.

### **Key Rating Strengths**

#### ***Experienced board members of the company***

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

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

AFPL commenced its operation in 2011 and has established active dealer network of 251 dealers in FY20. 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 generally take bank guarantee from majority of dealers to secure the credit sales.

#### ***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 4.45% in FY18 and 2.08% in FY19 with chicken meat production registering a growth of 4.98% in FY18 and 4.62% in FY19. Further, egg production registered a growth of 11.83% in FY18 and 2.47% in FY19. Poultry feeds (mainly Broilers) being major business segment of AFPL (contributed more than 80 % of total sales i.e. 84.26% in FY20 and 82.23% in FY19) and increasing trend of meat and egg industry is likely to benefit feed industry players like AFPL.

### **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 feed and distributing products within Nepal, mainly focused in Eastern part of Nepal.

#### ***Brief financial performance during the last 3 years is as follows:***

(Rs in Million)

<b>For the year ended Mid July</b>	<b>FY18(A)</b>	<b>FY19(A)</b>	<b>FY20(A)</b>
Income From Operations	1,231	1,311	1,272
PBILDT Margin (%)	5.97	7.21	6.11
Overall Gearing (times)	3.58	2.25	3.48
Interest Coverage (times)	1.83	2.09	1.64
Current Ratio (times)	1.29	1.14	1.12

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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	1.80	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>491.80</b>	