

## Rating Rationale

### Shivam Agro Industries Private Limited

#### Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities- Working Capital Loan	750.00	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>750.00</b>		

*Details of Facilities Rated in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A4+’ to the short-term bank facilities of Shivam Agro Industries Private Limited (SAIPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to SAIPL are constrained by the elongated operating cycle, moderate gearing level and debt coverage indicators of the company and relatively small scale of operation. The rating is also constrained by the susceptibility to price fluctuation for seasonal agro products, fragmented and competitive nature of industry. The ratings, however, derive strength from presence of experienced promoters with established and adequate track record of operation, comfortable financial profile characterized by healthy growth in sales and profitability and significant contribution of by-products to total revenue. The ratings also factor in stable and healthy demand and the growing marketing setup with locational advantage for raw materials. 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.

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Elongated Operating Cycle resulting to working capital intensive nature of business*

SAIPL is involved in processing of raw paddy into rice and processing of semi-finished rice into long grain rice by procuring raw materials both locally and by importing from India. The operations of the company are working capital intensive in nature due to high operating cycle of operation. SAIPL’s operating cycle is increasing in the past 2-3 years (i.e. 289 days in FY20 & 260 days in FY19) mainly due to increase in the average inventory holdings (i.e. 228 days in FY20 & 209 days in FY19). Inventory holding period increased due to seasonal nature of paddy, SAIPL regularly maintains stocks for around 6-7 months. Likewise, average collection period has also increased (i.e. 85 days in FY20 & 80 days in FY19) as the company extends credit to customers.

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

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

In Nepal, Rice is transplanted with onset of monsoon rain between June and August and harvested from September to November. The planting and production of the crop is dependent on timing and intensity of the monsoon rain, which is normally active during mid-June until mid-September. SAIPL is engaged in processing of paddy and rice. Prices of these products are highly volatile and seasonal in nature whose 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 as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

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

Debt-Equity ratio of the company has been low at 0.01x at the end of FY20 which improved from 0.06x at the end of FY19 due to repayment of term loan coupled with increase in net worth of the company upon accretion of the profit. Overall total gearing ratio of the company increased to 2.90x at the end of FY20 which was 2.56x in FY19. However, SAIPL's interest coverage ratio is stable at 1.30x in both FY19 and FY20. Total debt/ GCA of the company improved marginally to 35.05x during FY20 which was high at 36.09x during FY19.

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

Import and processing of rice is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of SAIPL's product results in high competition from other players including traders. Large-scale collectors, large millers and wholesalers dominates the rice supply chain. Considering the fragmented and competitive nature of industry, the millers have low pricing power. The pricing is market driven and Government of Nepal has not yet provided any minimum support pricing for the rice industry. Further, Nepal being agriculture-based nation, consumption for household purpose is produced mostly in domestic level as well.

***Relatively small scale of operation with single product***

Having presence of 8 years in the market, the total sales figure is around Rs. 943 Mn in FY19 and Rs. 1,241 Mn in FY20 with PAT margin at 0.76% in FY19 and at 0.97% in FY20. The small size restricts financial flexibility in times of stress and deprives it from benefits of economies of scale. The company has only one product type i.e., rice. Considering the fragmented industry and the seasonal nature of raw material coupled with working capital-intensive nature of business, a slight variation may expose the fate of the company's operation to vagaries of nature.

**Key Rating Strengths:*****Established track record of operations coupled with experienced promoters in the related field***

SIAPL commences its operations in 2012 and has already established 8 years of track record in the market. SAIPL along with its sister concerns, commonly known as Shivam Organization, is engaged in rice processing, pulse processing, cattle feed and poultry feed production, soya nugget production, import of spices, dry fruits and agro commodities. SAIPL generates its revenue from sale of variety of rice and by-products. Total Sales volume of the company is increased by ~26% during FY-19 and ~32% during FY20. Mr. Shivajee Prasad Shah Kalwar, the Chairman, is a committee member of Birgunj Chamber of Commerce and has led the Rice, Oil and Pulses Association of Birgunj. Mr. Pramod Kumar Shah, the managing director, looks after the rice business since its inception.

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

SAIPL generates its revenue from sale of variety of rice and by-products. Total sales of the company increased by ~32% during FY20 to Rs. 1,241 Mn in FY20 over FY19, majorly on account of increase in total quantity sold. The company has been able to achieve CAGR growth of around 25% in the last four years ending FY20. The company is earning healthy PBILDT margins, although they are in declining trend. The ability of SAIPL to manage growth in the operations & maintaining the profit margins are the key rating sensitivities.

***Major Nepalese diet leading to stable and healthy demand***

Rice is a preferred food for the almost entire population of the country. Rice ranks as the first among cereal crops in terms of area, production and livelihood of the people. With growth in population in Nepal, the rice consumption is also expected to increase leading to stable demand in the market.

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

SAIPL sells its products all over Nepal and has a customer base of more than 200 (B2B) customers spread across all major cities in the country. The sales are made directly from Corporate office and factory in Parsa District, Nepal. Also, SAIPL has owned 4 godowns located across Parsa District. The factory and godown located in terai region within close proximity which eases procurement of raw material, storage, processing and directly selling to market. The company has setup three marketing offices in Kathmandu, Pokhara and Jiri to market its products.

***Significant contribution by the by-products***

The paddy is processed into ~55-60% rice and remaining are processed out in the form of by-products namely Husk (~20%), Bran (~15%) and Kanika (~10%). The company also sells the Jute bags. The sales generated from by-products constitute 15% and 20% of the total gross sales in FY20 and in FY19 respectively. There is very less wastage of raw materials. Rice husk is used as bio-fuels in different factories in Nepal, Rice bran is used for animal feeds and broken rice (kanika) is used in alcohol and beverages industry.

**About the Company**

Shivam Agro Industries Private Limited (SAIPL) is a private limited company, incorporated on July 24, 2012. It is promoted by individual promoters having long experiences in Nepal Agro industry. SAIPL is into processing of paddy into rice having a fully automated rice mill plant in Parsa, Birgunj, Nepal. SAIPL's products include short grain rice and long grain rice having 7 different registered brands names with packaging ranges from 5kg to 30 kg.

**Brief Financial Performance during the last 3 years is as follow: -**

For the year ended mid-July	FY18 (A)	FY19 (A)	FY20 (A)
Income from Operation (Rs. in Mn)	749	943	1,241
PBILD Margin (%)	9.73	8.67	8.32
Overall Gearing (times)	2.66	2.56	2.90
Interest Coverage (times)	1.45	1.30	1.30
Total Debt to Gross cash accruals (times)	24.20	36.09	35.05
Current Ratio (times)	1.18	1.21	1.17

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

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Working Capital Loan	750.00	<b>CARE-NP A4+</b>
<b>Total</b>		<b>750.00</b>	