

Rating Rationale
Janakpur Agro Farm Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,136.33	CARE-NP B+ [B Plus]	Assigned
Short Term Bank Facilities	253.67	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,390.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP B+’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Janakpur Agro Farm Private Limited (JAPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JAPL are constrained by project implementation risk, fragmented and competitive nature of industry, exposure to inherent risk in poultry sector and exposure to volatile interest rates and raw material price fluctuation risk associated with the company.

The ratings, however, derive strength from experienced promoters in the related field, high growth prospect of industry and government support for agriculture based industry.

Going forward, the ability of the company to timely execute the project within the projected commercial operation date (COD) avoiding further time or cost overrun will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project Implementation Risk

JAPL is setting up a new poultry farm along with organic fertilizer plant and CNG bio-gas plant in Dhanusha, Nepal. The total cost of project is envisaged at Rs. 1,623.34 Mn which is proposed to be financed in debt equity ratio of 70:30 (i.e. Rs. 1,136.33 Mn as term loan and Rs. 487.01 as equity). The debt for the same has been fully tied up. Out of total capex planned, as on April 30, 2021, the company has incurred Rs. 194.35 Mn of total project cost (~12% financial progress) funded through promoter’s contribution and term loan.

The company remains exposed to the risk associated with project implementation in term of its completion with-in the envisaged time and cost. Any delays in the implementation may impact the company’s financial risk profile adversely and is also crucial from credit prospective.

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

Competitive nature of industry and raw material price fluctuations risk

The company majorly undertakes manufacturing of poultry feed; hence demand is linked to the fortunes of the poultry industry. The poultry industry is driven by regional demand and supply because of transportation constraints and perishable nature of the products. Due to the stiff competitive, the pricing of poultry products remains volatile and also varies from place to place. Low capital intensity and low entry barriers facilitate entry of unorganized players, leading to high competition and fragmentation which in turn affects the profitability.

The company's profitability would be vulnerable to volatility in raw material (key ingredients - maize and soybean) prices. Maize is the primary source of energy, whereas soybean is the primary source of protein and forms about 25% of the feed. The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of paddy, bran, bajra etc. which are agro commodities and their demand supply situation depends on various natural conditions like monsoons, drought and floods. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly competitive nature of the industry, which could lead to have impact on profitability margins.

Vulnerability of the industry's performance to outbreaks of flu and other diseases

Intermittent outbreaks of bird flu have affected exports since 2006. Such disease outbreaks affect poultry industry and movement of poultry products across the country. These avian flu outbreaks could lead to a drastic fall in demand followed by crash in poultry prices. Such scenario could pressurize the company's revenue flows as well as profitability.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating 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 (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

Key Rating Strengths***Experienced promoters and directors in the related field***

JAPL's operations are currently managed by Mr. Khuma Prasad Aryal (Chairman) and Mr. Shovakanta Dhakal, (Managing Director). The promoters have overall experience of more than two decades in the diversified industries though their association in different capacities. Mr. Khuma Prasad Aryal, is also associated with Khilung Kalika Agro Farm Private Limited [CARE-NP B+/A4], which deals in poultry eggs, meats and organic fertilizers.

Mr. Shovakanta Dhakal, managing director, has a long standing experience in diversified sectors like banking, hotels, tourism, agriculture, poultry, renewable energy etc.

Positive industry outlook and favourable Government policies

The poultry industry has seen mounting effect due to increase in demand driven by the rapidly changing food habits of the average Nepalese consumer favouring for white meat, dictated by the lifestyle changes in the urban and semi-urban regions of the country. The demands for poultry products are sustainable and accordingly, this kind of industry is relatively insulated from the economic cycle.

The government has put restrictions on import of poultry items in Nepal from other countries as an initiative to protect domestic poultry sector and to attain self-sufficiency in the poultry sector.

About the Company

Janakpur Agro Farm Private Limited (JAPL) is a private company and was established in 2018 having registered office in Dhanusha, Nepal. The company is setting up a new poultry farm and poultry would have two grower sheds, each with 51,840 birds’ capacity and five laying sheds, each with 100,800 birds’ capacity. JAPL is also setting up organic fertilizer plant with installed capacity of 8,720 tons per annum and a biogas CNG plant having 800kW electricity generation capacity.

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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	1,136.33	CARE-NP B+
Short Term Bank Facilities	Working Capital loans	153.67	CARE-NP A4
Short Term Bank Facilities	Letter of Credit	100.00	CARE-NP A4
Total		1,390.00	