Annapurna Vegetable Products Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long-term Bank Facilities	69.80	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short-term Bank Facilities	2,954.77	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	**3,024.57 [Rs. Three Billion Twenty-Four Million Five Hundred and Seventy Thousand Only]**		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (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 Annapurna Vegetable Products Private Limited (AVPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AVPL continues to be constrained by its leveraged capital structure, high raw material price volatility risk and foreign exchange fluctuation risk. The ratings also factor in susceptibility to price fluctuation of seasonal agro products, competitive nature of industry and exposure to volatile interest rates and regulatory risk.

The ratings however, derives strength from long track record of operations along with experienced promoters and management team and growing scale of operations and moderate profitability, debt service coverage indicators and operating cycle in FY20. The ratings also factor locational advantage of manufacturing facilities.

Ability of AVPL to profitably scale up its operations while managing its working capital requirements & improvement in capital structure while rationalization of its debt levels would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure

Total debt of the company increased from Rs. 2,452 Mn at the end of FY19 to Rs. 2,850 Mn at the end of FY20 mainly due to increased term loan to fund capex as well as working capital loans to fund increased operations of the company. As on Mid-July, 2020, the overall gearing ratio of the company stood high at 3.79x and has shown improvement from 9.62x over previous balance sheet date on account of increase in net-worth due to plough back of profit into business. The company has leveraged capital structure on account of high dependence on bank borrowings to meet its working capital requirements.

Foreign exchange fluctuation risk

The company is mainly procuring raw materials (Crude soyabean, palmolien, sunflower oil, rape seed) from foreign countries and its business operations are totally dependent on imports. All of the raw material requirements of the company were met through imports during last three financial years (FY18-FY20). The realization of sales is completely in the domestic currency or Indian rupee. With initial cash outlay for procurement in foreign currency (USD) and significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in exchange rates. Though the company tries to pass on the price and currency volatility to the end users, any adverse fluctuations in the currency markets may put pressure on the profitability of the company

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

Raw material price volatility risk

Industry profitability is mainly influenced by the volatility in input prices as raw-material cost forms about 79% of the total operating costs. The major raw materials are agro based commodities for AVPL which are imported from various countries for which prices are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins.

Susceptibility to price fluctuation of seasonal agro products

Prices of crude edible oils 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 and climatic condition, exposing the fate of the company's operation to vagaries of nature.

Competitive nature of industry

Import and processing/refining of edible oils is highly competitive due to presence of several organized / unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of AVPL's product results in high competition from other players including traders. Considering the competitive nature of industry, the millers have low pricing power.

Exposure to regulatory risk

AVPL is partially constrained by regulatory risk arising from various laws and policies from both Nepal and India. In past, VAT refund was eligible to edible oil industry which is now no longer available. Further, ~46% of total revenue of the company during FY20, was from export of palmolien oil and soyabean oil to India, with which company is further exposed to import regulations of India as well.

Key Rating Strengths

Long track record of operations along with experienced promoters' management team

AVPL derives strength from its strong promoter group belonging to the Sanghai Family Brothers. They have presence in diversified business segments like banking, insurance, manufacturing, trading and other businesses. The promoters of company have an experience of over three decades in trading of imported and processed edible oils. AVPL is managed under the overall guidance of its two members Board of Directors (BoD) which includes experienced businessmen/industrialist with wide experience in the food processing and trading sector.

Growing scale of operations with moderate profitability margins

Total operating income (TOI) of the company increased by ~28% in FY20 to Rs. 6,974 Mn on account of growth in total quantity sold followed by improvement in overall average price realization per unit of its products. The growth in total revenue during FY20 was supported by significant increase in export business of the company. Furthermore, AVPL has achieved total revenue of Rs. 9,647 Mn in 11MFY21 ended mid-June, 2021.

PBILDT of the company increased by ~67% in FY20 with improvement in PBILDT margin from 8.98% in FY19 to 11.66% in FY20 on account of economies of scale coupled with increase in export business which has better profitability margins. With improvement in PBILDT, net profit of the company also improved in FY20. With healthy improvement in PBILDT, interest coverage ratio also improved and remained comfortable at 7.57x in FY20. Also, total debt/ Gross Cash Accruals improved and stood satisfactory at 5.13x in FY20.

Moderate operating cycle of the company

The operating cycle of the company remained moderate at 78 days in FY20. AVPL highly relies on imported raw materials from various countries procured through Letter of Credit. AVPL has to keep the inventory for smooth operations and extend credit to their customers, leading to reliance on working capital limits. Sales is normally in cash in respect of export sales while AVPL allows two months credit period to its domestic customers. The company kept inventory for around one and a half months supported by credit period of around 11 days in FY20. The average utilization of fund-based working capital limit against drawing power was around 71% during last 12 months period ended mid-April, 2021 providing liquidity cushion to the company.

Essential part of cooking leading to stable demand and steady growth in the revenue

The demand prospect of edible oil industry is stable as oil is one of essential commodity for cooking. The company has been able to achieve CAGR growth of around 36% in the last four years ending FY20. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of edible as well as crude oil is being imported in Nepal giving importers like AVPL a favourable environment. Nepal has seen a steady growth in import of edible oil over the years.

Locational advantage for both imports and exports

The plant site is located in Lipanimal, Birgunj around 11 Kms from Indo-Nepal borders in Birgunj dry-port. Since all of the raw materials requirements of AVPL are imported from various countries followed by export prospects for the company, the proximity of processing unit of the company to the Indian border remains beneficial in terms of savings in freight cost.

About the Company

Annapurna Vegetable Products Private Limited (AVPL) is a private limited company established in 1988 for processing/refining of edible oils, having plant in Adarshnagar, Birgunj, Nepal. Currently, the total installed capacity for refined soyabean/palmolien/sunflower oil is 60,000 MTPA, for vegetable ghee is 7,000 MTPA and for mustard oil is 10,000 MTPA. AVPL sells these edible oils under 3 different brands viz. Amrit, Sunstar and Rani in the domestic market.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	3,116	5,435	6,974
PBILDT Margin (%)	1.81	8.98	11.66
Overall Gearing Ratio (times)	(147.65)	9.62	3.79
Interest Coverage (times)	0.60	3.49	7.57
Current Ratio (times)	0.99	1.06	1.24
Total Debt/Gross Cash Accruals (times)	-ve	8.43	5.13

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	69.80	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limits	1,139.77	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limits	1,815.00	CARE-NP A4+
Total		**3,024.57**	

Contact Us

Analyst
Mr. Utsav Baral
Contact No.: +977-01-4012628
Email: utsav.baral@careratingsnepal.com

Senior Analyst
Ms. Shalini Sanghai
Contact No.: +977-01-4012629
Email: shalini.sanghai@careratingsnepal.com

Relationship Contact
Name: Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:
CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).