

Narayani Modern Pulses Industries

Rating

Instrument / Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Short Term Bank Facilities	1,592.50	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,592.50		

Details of instrument / facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A4+' assigned to the short-term bank facilities of Narayani Modern Pulses Industries (NMPI).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of NMPI continues to remain constrained by leveraged capital structure, working capital intensive nature of operations and foreign exchange fluctuation risk. The ratings also factor in susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, exposure to volatile interest rates and partnership nature of constitution.

The rating, however, derives strength from the established track record of operations with experienced promoters, moderate profitability margins and locational advantage for import of raw materials.

Going forward, the ability of the company to profitably scale up its operations, managing its working capital requirements while limiting its borrowings will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure

NMPI's capital structure stood leverage on account of high dependence on external borrowings (mainly working capital loans) to meet its working capital requirements. At the end of last 2 FYs (FY19 & FY20: FY refers to 12 months' period ended mid-July), overall gearing of NMPI had remained high at 9.17x in FY20; however, improved from 12.24x in FY19 on account of increase in capital base of the firm due to infusion of capital and retention of profits during FY20. Though improved, it continued to remain high.

Also, due to decline in the scale of operations during FY20 had led to low GCA levels. Therefore, the interest coverage ratio remained weak and stood at 1.18x in FY20. Furthermore, the total debt/GCA remained substantially higher at 72.75x in FY20.

Working capital intensive nature of operations

The operations of the company are highly working capital intensive as the company requires to stock up the requisite inventory owing to smooth running of processing operations and delivery schedules. Furthermore, high credit period extended to its customers also keeps the working capital utilization relatively higher. In addition to this, majority of raw materials for NMPI are in the form of imports mainly against letter of credit / advances or having payable period of less than 30 days. On other hand, NMPI generally has high average debtors' collection period of more than three months. Therefore, the high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of more than 95% of its drawing power limit for the last 12 months' period ended mid-April 2021.

Partnership nature of constitution

NMPI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners which may affect financial flexibility of the firm. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth.

Susceptibility to price fluctuation of seasonal agro products

NMPI is engaged in import and processing of pulses primarily masoor dal (red lentils), yellow peas and green peas. Prices of pulses 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 during the particular year as well as overall climatic condition, exposing the fate of the firm's operation to vagaries of nature.

High reliance on import and Foreign exchange fluctuation risk

The company is mainly importing materials from foreign countries and its business operations are majorly dependent on imports. The procurement to raw material cost stood 80-85% total purchases for last two Financial Years. The realization of sales is completely in the domestic currency. With initial cash outlay for procurement in foreign currency (USD) and 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.

Fragmented and competitive nature of industry coupled with exposure to volatile interest rate

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 NMPI'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.

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***Established track record of operation with experienced promoters***

NMPI is part of Chachan Group which is one of the established business group in Nepal. The group is promoted by Chachan family and currently is managed by the second and third generation of the family. The Group is involved in various businesses like cement manufacturing, edible oil refinery, import and trading of fertilizers, manufacturing of leather products. NMPI was established in 1994 and currently has two partners, Mr. Mohan Lal Agrawal and Mr. Shrawan Kumar Chachan; sharing profit and losses equally. Both the partners have more than 3 decades of experience in trading of pulses.

Moderate profitability margins

NMPI generates its revenue from sales of various pulses and total revenue of the firm has increased by CAGR of ~16% over the period of five years' ending FY20. However, during FY20, the firm reported decline in total sales of ~ 17% over FY19 which is mainly attributable to decrease in quantity sold of green peas. Govt. of Nepal imposed restrictions on importing peas which resulted into decline in quantity sold.

The profitability margin of the company continues to remain on moderate side considering the trading nature of business where the value addition is inherently low and highly competitive. PBIDLT margin of the firm stood range bound at around 7.25% in last 3 financial years.

Locational advantage for import of raw materials with adequate storage capacity

NMPI's plant is located in Lipnimal, Bara district of Nepal. The raw materials are transported by road through Raxaul Boarder of India which is ~12kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border. This provides NMPI an advantage of procurement of raw material at lower transportation cost. Due to the close proximity with the major populous cities, NWPI also has huge locational advantages to dispense its products as per the proliferation in the market demand.

About the Company

Narayani Modern Pulses Industries (NMPI) is a partnership firm established in 1994 to process, import and export various kinds of Pulses and Grains. NMPI is registered with Department of Cottage and Small Scale Industries and has total capacity of 30,000 Metric Ton Per Annum (MTPA). NMPI deals in various kinds of pulses like Masoor Dall, Yellow Peas Dall, Green Mung Dall etc. NMPI caters to its customers through sales depot in Kathmandu, Pokhara, Itahari, Bhairahawa, Nepalgunj and Janakpur.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	1,890	2,687	2,238
PBIDLT Margin (%)	142	192	166
Overall Gearing Ratio (times)	19.82	12.24	9.17
Interest Coverage (times)	1.09	1.31	1.18
Current Ratio (times)	0.99	1.03	1.06
Total Debt/ Gross Cash Accruals (times)	156.66	36.07	72.75

A: Audited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Short Term Bank Facilities	Fund Based Limits	1,578.50	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limits	14.00	CARE-NP A4+
Total		1,592.50	

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About CARE Ratings Nepal Limited:

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