

Surya Pulse and Processing Private Limited

Ratings

Instrument / Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long-term Bank Facilities	23.38	CARE-NP BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING*) (Notice of Withdrawal)	“Issuer not cooperating; Based on best available information” (Notice of Withdrawal) and Downgraded from CARE-NP BBB- (Triple B Minus)
Short-term Bank Facilities	976.62	CARE-NP A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*) (Notice of Withdrawal)	“Issuer not cooperating; Based on best available information” (Notice of Withdrawal) and Downgraded from CARE-NP A3 (A Three)
Total Facilities	1,000.00 [Rs. One Billion Only]		

Details of instrument / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from Surya Pulse and Processing Private Limited (SPPPL) to monitor the rating(s) vide e-mail communications/letters dated June 27, 2021; July 10, 2021 and July 14, 2021 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL’s opinion is not sufficient to arrive at a fair rating. If after the monitoring of the rating there is no cooperation from the Client, then thereafter, CRNL may withdraw the rating. The rating on Surya Pulse and Processing Private Limited bank facilities will now be denoted as **CARE-NP BB+/A4+; ISSUER NOT COOPERATING* (Notice of Withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on June 30, 2020; the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Working capital intensive nature of business

The operations of SPPPL are working capital intensive with majority of purchases from foreign countries having short credit period. SPPPL’s average inventory holding period remained at ~2-3 months and average collection period at more than 35 days at the end of FY19. This led to operating cycle of around 4 months leading to high reliance of the company on bank finance for the working capital needs.

Susceptibility to price fluctuation of seasonal agro products

SPPPL 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

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

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 company's operation to vagaries of nature.

Fragmented and competitive nature of industry leading to thin profitability margins

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 SPPPL's product results in high competition from other players including traders leading to thin profitability margins in the industry. Considering the fragmented and competitive nature of industry, the millers have low pricing power.

High reliance on import and Foreign exchange fluctuation risk on such imports

SPPPL is highly reliant on imports as its primary source of pulses and most of them are imported from Australia, Burma and Canada. However, company doesn't hedge its foreign currency exposure which exposes it to the risk associated with the fluctuation in foreign currency exchange rate.

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 in the related field

SPPPL started its commercial operation in July 2013 and is involved in processing and supplying Dal under the brand name "JUNALI RAAT". SPPPL is promoted by Minda family who are involved in various businesses of processing and trading pulses, rice and rice seeds. Mr. Sanjaya Kumar Minda heads the overall business as Chairman of the company and has more than 30 years of experience in similar nature of business.

Locational advantage

SPPPL's plant is located in Dhajhan rural municipality, Jhapa district of Nepal. The raw materials are transported by road through Kakarvitta boarder of Nepal which is ~10kms from the plant which makes the location of the plant nearness to the Indian State West Bengal and provides SPPPL an advantage of supply of raw material at lower transportation cost. Further, it has depot in Kathmandu and Jhapa and has distributors across eastern and central part of Nepal.

Moderate financial risk profile

SPPPL generates its revenue from sales of various pulses with ~60% of sales consisting of Red Lentils, Yellow Peas and Green Peas. Total revenue of SPPPL has increased by CAGR of 5.55% over 3 years' period ending FY19. The company reported increase of 20.41% in revenue during FY19 over FY18 due to increase in quantity sold. Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is exposed to fluctuation

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in prices as well as availability of agriculture commodities. SPPPL reported PAT margin of 2% in FY19 with improvement over FY18, mainly due to growth in PBILDT and decline in the interest cost during the year.

On account of high dependence on working capital borrowings, SPPPL's capital structure stood high marked by overall gearing ratio of around 2 times at the end of FY19. Also due to high dependence on working capital borrowings, debt service coverage ratio with company also stood modest in FY19.

High growth prospect of the industry

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. Alongside with the demands for poultry products, the poultry feed industry is also expected to grow, accordingly, this kind of industry is relatively insulated from the economic cycle.

Demand outlook of the products

Demand of pulses has been rising in Nepal with pulses being part of staple food of Nepal. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal giving importers like SPPPL a favourable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

About the Company

Surya Pulse and Processing P. Ltd. (SPPPL) is a private company established in 2008 and started its commercial operation from July 2013 to process, import and export various kinds of Pulses & Grains. SPPPL is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 19,950 Metric Ton Per Annum. SPPPL deals in various kinds of pulses like Masoor Dal (Red Lentils), Australian Channa/ Dal, Maas Dal (Urad/Black Matpe), Green Mung Dal, Aarahar Dal (Pigeon Peas), Hariyo kerao (Green Peas), Seto Kerao (Yellow Peas) etc.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2017	2018	2019
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	1,385	1,205	1,451
PBILDT Margin (%)	59	63	84
PAT	6	8	29
Overall Gearing Ratio (times)	1.84	1.81	1.99
Interest Coverage (times)	1.62	1.67	2.63

A: Audited, FY ended mid-July.

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	23.38	CARE-NP BB+ Issuer Not Cooperating* (Notice of Withdrawal)
Short Term Bank Facilities	Working Capital	916.62	CARE-NP A4+ Issuer Not Cooperating* (Notice of Withdrawal)
Short Term Bank Facilities	Non- Fund Based	60.00	CARE-NP A4+ Issuer Not Cooperating* (Notice of Withdrawal)
Total		1,000.00	

*Issuer did not cooperate; Based on best available information.

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About CARE Ratings Nepal Limited:

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