Baba Vegetable Oil Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short Term Bank Facilities- Fund Based Limits	20.00	**CARE-NP A3 (A Three)**	Rating Revised from CARE-NP A4+
Short Term Bank Facilities- Non-Fund Based Limits	740.00	**CARE-NP A3 (A Three)**	Rating Revised from CARE-NP A4+
Total Facilities	**760.00**		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating to 'CARE-NP A3' to the short term bank facilities of Baba Vegetable Oil Industries Private Limited (BVOPL).

Detailed Rationale & Key Rating Drivers

The revision in the short term rating assigned to the bank facilities of BVOPL takes into account growing scale of operations while maintaining its profitability margins coupled with improvement in capital structure and debt service coverage indicators. The rating also derives strength from established track record of operations along with experience promoters in the field and locational advantage of manufacturing facilities.

The rating is however, constrained by exposure to regulatory risk, price fluctuation of seasonal agro products, its presence in competitive nature of industry and exposure to volatile interest rates.

Ability of the company to manage growth in the operations by penetrating into domestic market while maintaining the profitability margins and managing foreign exchange fluctuation risk will be key rating sensitivities. Any change in the regulatory framework pertaining to trade regulations and tariff differential with India impacting exports prospects will also act key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established and long track record of operations along with experienced promoters

The company has been into processing of edible oil for more than 25 years and has developed a market for itself in domestic as well as export markets through its long standing presence in this sector. BVOPL also derives strength from its established promoters belonging to the Debenara group of Nepal. The group is involved in diversified manufacturing, trading and other businesses. The promoters of company have an experience of over two decades in trading and processing of edible oils. The company is managed by Mr. Prakash Kumar Mundara and Mr. Suresh Kumar Rathi. Mr. Prakash Kumar Mundara has an experience of more than 15 years in chemicals, agriculture and edible oil industry etc. Mr. Suresh Kumar Rathi, Director, has an experience of over 15 years and is involved in various trading and manufacturing sectors including agricultural products, soap and chemicals etc.

Locational advantage for both imports and exports

The plant site is located in Biratnagar around 15 kms from Indo-Nepal borders. Since the procurement of raw materials is mainly in the form of imports and routes through Indian ports. The factory's proximity to the border remains a positive point leading to savings in freight cost. Furthermore, BVOPL also exports its products to India which accounted for 71% of total revenue in FY21 (FY refers to 12 months' period of mid-July 2020 to mid-July 2021). The factory's proximity to Indian border remains added advantage with regards to freight cost saving in export of goods.

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications*

Improvement in Financial risk profile during FY21

The financial risk profile of the company improved significantly in FY21 (FY refers to 12 months' period of mid-July 2020 to mid-July 2021) marked by significant growth in total operating income, improvement in profitability margins, capital structure and debt service coverage indicators.

Total operating income of the company grew by ~78% during FY21 to Rs. 5,521 Mn, majorly contributed by substantial growth in exports along with increase in average price realization. The exports of the company increased from Rs 2,197 Mn. in FY20 to Rs. 3,971 Mn. in FY21. The company had moderate capacity utilization of ~72% in FY21 which improved from ~57% in FY20. Despite the increase in TOI, BVOPL's PBIDLT margin remained almost stable at around 12.50%. However, PAT margin improved for FY21 over FY20 on account of reduction in finance cost.

The total debt of the company which mainly comprises of working capital borrowings and vehicle loans. Though the total debt of the company increased on the balance sheet of FY21 over previous year on account of higher utilization of working capital borrowings, overall gearing ratio improved to 1.62x at the end of FY21 from 2.87x as on mid-July 2020. the improvement was attributed to increase in networth due to partial accretion of profits.

Interest coverage ratio of the company stood comfortable at 33.33x in FY21 which improved from 12.84x in FY20. This improvement in interest coverage ratio was due to growth in PBILDT coupled with decline in interest cost due to change in borrowing mix whereby the company opted for foreign currency borrowings having lower rate of interest. The increase in scale of operations coupled with higher PAT margin led to increase in GCA in FY21 and total debt/GCA also improved to 1.82x during FY21 from 3.38x in FY20.

Moderate level of operating cycle

The company has moderate operating cycle of 47 days for FY21 which shortened from 62 days for FY20. Company generally allows 1.5 to 2 months' credit period to its customers, debtors turnover days was 31 days during FY21 which improved from 42 days during FY20. The company keeps inventory for around 1-1.5 months and the inventory holding days was 25 days for FY21. The procurement is normally backed by letter of credit having lesser usance period leading to average payable period of 9 days for FY21. The average utilization of working capital limits against drawing power remains around 85%.

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

The demand prospect of oil industry is growing as oil is one of essential commodity for cooking. The company has been able to achieve CAGR growth of around 31% in quantity sold in the last three years ending FY21. Furthermore, with demand being 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 BVOPL a favourable business environment.

Key Rating Weaknesses

Exposure to regulatory risk

The operation of BVOPL is vulnerable to regulatory risk arising from various laws and policies from both Nepal and India. The business of BVOPL is primarily dependent on imported crude edible oil and exporting the same to India. Over past few years, there has been in regular/frequent changes in government policies, either domestic or international. Company's revenue is highly susceptible to regulatory policies relating to tariff barriers (differential trade tariffs among South Asian Free Trade Area), non- tariffs barriers (restriction on the quality of imports), international freight rates etc. Any unfavorable change in policy could impact the financial profiles of entities operating in the importing of crude edible oil and exporting to India.

Raw material price volatility risk and foreign exchange fluctuation risk

Crude soyabean, palmolein, sunflower oil and crude palm oil are the major raw materials for BVOPL which are imported from various countries. The prices of the BVOPL's raw materials 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. The raw material cost contributed around 79% of the total operating income of the company during FY21. Further, the total raw material requirement is met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. BVOPL incurred foreign exchange gain of Rs. 16 Mn during FY21 compared to loss of Rs. 51 Mn during FY20. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks is critical to maintain its profitability.

Competitive nature of industry with seasonal agro product

Import and processing/refining of edible oils 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 BVOPL's product results in high competition from other players including traders. Considering the competitive nature of industry, the millers have low pricing power**.**

Agro products are also seasonal in nature with production dependent on various factors such as monsoon and climatic condition, exposing the fate of the company's operation to vagaries of nature.

About the Company

Baba Vegetable Oil Industries Private Limited (BVOPL) is a private limited company incorporated on September 22, 1993 for processing/refining of edible oils, having plant in Katahari, Morang, Nepal. Currently, the total installed capacity for refined soyabean, palmolein, sunflower oil and palm oil is 45,000 MTPA. BVOPL sells these edible oils under the brand name of "Siddha Baba" in the domestic market. The company sales its products across all major places in Nepal through its sales depot located at Biratnagar, Kathmandu and Pokhara and also exports to India.

Brief financial performance of BVOPL during last 3 years is given below:

(Rs. Million)

For the Period Ended / as at Mid-July,	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Income from Operations	2,171	3,092	5,519
PBILDT Margin (%)	10.95	12.59	12.48
Overall Gearing (times)	3.27	2.87	1.62
Interest Coverage (times)	6.56	15.69	33.57
Current Ratio (times)	1.23	1.25	1.39
Total Debt/ Gross Cash Accruals (times)	4.67	3.38	1.82

A: Audited, UA: Unaudited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Working Capital Limits	20.00	CARE-NP A3
Short Term Bank Facilities	Non-Funded Limits	740.00	CARE-NP A3
Total		760.00	

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About CARE Ratings Nepal Limited:

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