

Century Food Packaging & Processing Udhyog Private Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1.41	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	768.59	CARE-NP A3 [A Three]	Assigned
Total Facilities	770.00		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BBB-' to the long-term bank facilities and 'CARE-NP A3' to the short-term bank facilities of Century Food Packaging & Processing Udhyog Private Limited (CFPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of CFPL derive strength from its established track record of operations along with experienced management team in the related field, moderate financial risk profile of the company marked by growing scale and profitability and moderate capital structure of the company with improving debt service coverage indicators over FY19-FY21 (FY refers to the twelve-month period ending mid-July). The ratings also factor in CFPL's established marketing setup with locational advantage for raw materials and growing brand presence, moderate operating cycle, and stable demand of rice products being major Nepalese diet.

The ratings, however, remain constrained by susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates.

Going forward, the ability of CFPL to manage growth in the operations while maintaining the profitability margins and rationalization of its debt through efficient working capital management would remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record of operations, along with experienced management team in the related field

CFPL has an established track record of operations of over two decades in the rice trading business in Nepal. CFPL is currently managed under the overall guidance of Mr. Rajendra Prasad Agrawal, chairman, who has over four decades of experience in food trading industry. The management team is aptly supported by experienced professionals across various departments. The promoters of the company have also been infusing funds into the company in the form of equity to fund the operational needs of the company on back of increasing operations of the company.

Established marketing setup and growing brand presence

CFPL sells its products all over Nepal and has a customer base of more than 700 large and small scale retailers spread across all major cities of the country. Furthermore, to support its marketing and sales, CFPL has offices and godowns located at Biratnagar and Kathmandu thereby facilitating procurement of raw material with favorable pricing terms and smooth distribution of its products. Furthermore, the packaging unit of CFPL is located nearby Indian border giving locational benefit for import of raw materials at lower transportation cost. CFPL sells its products under various registered brands, which have gained strong traction in the Nepalese market in a relatively short span as suggested by the growth in scale achieved by the

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

company over FY19-FY21. A strong brand presence gives the company competitive advantage over new players entering the industry.

Moderate financial risk profile

Total operating income (TOI) of the company increased to Rs. 1,614 Mn in FY21 (Audited, FY refers to the twelve-months period ended mid-July) from Rs. 873 Mn FY19 reflecting a compounded annual growth rate of 36%, majorly on account of increase in total quantity sold with CFPL's brand 'Thakali' gaining popularity among customers. The growth trend has continued during 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022) as CFPL has achieved total operating income of Rs. 1,369 Mn, registering annualized yoy growth of 13% over FY21.

The company's profitability margins have also been on an improving trend over FY19-FY21 owing to increasing sales coupled with favourable pricing. Margins are also supported by the company's leaner distribution set up and a product mix focused on premium offerings. Consequently, PBILDT margin improved by 333 bps yoy to 10.47% during FY21. Growing sales and improved gross margins translated into higher PAT of Rs. 98 Mn in FY21 compared to Rs. 43 Mn in FY20.

Total gearing ratio of the company was moderate at 1.68x as on mid-July 2021 improving from 3.89x as on mid-July 2020 majorly on account of increase in net worth of the company boosted by improved profitability coupled with lower debt levels. Interest coverage ratio of the company also improved to 5.04x during FY21 from 2.92x in FY20 supported by improved profitability. Furthermore, total debt/ GCA of the company improved to 2.49x as on mid-July 2021 from 8.77x as on mid-July 2020 due to higher cash accruals and decline in debt level of the company.

Moderate operating cycle of the company

CFPL is involved in trading of rice by procuring the raw materials domestically and in the form of imports. Due to seasonal nature of raw materials, CFPL regularly needs to maintain stock for around a month for smooth operations. In addition, the company needs to extend credit to their customers, leading to reliance on working capital limits. CFPL generally allows up to three months of credit period to its customers. With average collection period of 87 days, average inventory days of 25 days and average credit period of 20 days, the total operating cycle of the company was 91 days in FY21, which declined from 130 days in FY20 mainly due to decline in collection period. The average utilization of fund-based working capital limit against sanctioned limit was around 60% during the twelve-month period ending mid-May, 2022.

Major Nepalese diet leading to stable demand

Rice is a preferred staple food for majority of Nepalese. It ranks first among all the cereal crops in terms of acreage area, production and consumption. Rice also has a cultural significance and with growing population, its consumption is also expected to increase, thereby leading to a stable demand outlook over the medium-long term.

Key Rating Weaknesses

Susceptibility to price fluctuation of seasonal agro products and revenue concentration on single product

Paddy is a seasonal crop and its planting and production is generally dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile, as their production and prices depend upon various factors like area under production, yield for the year, demand-supply scenario and inventory carry forward of last year. Furthermore, the supply is also dependent upon availability of seed, impacts of pests, as well as overall climatic condition during the year, exposing the fate of the company's operations to vagaries of nature. The company is also exposed to revenue concentration risk as all of its revenues are from sale of a single product – rice, although of different varieties and under various brands.

Fragmented and competitive nature of industry

Import and processing of rice is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology & capital requirement. Low product differentiation of CFPL's products results in high competition from other players, including traders. Considering the fragmented and competitive nature of industry, companies have low pricing power. Furthermore, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

About the Company

CFPL is a private limited company established in 2001 for trading of rice having packaging facility in Biratnagar, Nepal. CFPL deals in varieties of rice such as long grain rice, jeera rice, basmati rice and khudi rice, and sells them under various brands with major brands being Thakali, Mubarak, Sancho, Kohinoor, Subash Sahi and Jham Jham.

Brief financial performance of CFPL during the past 3 years are given below:

	(Rs. Million)		
For the year ended Mid-July	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	873	1,252	1,614
PBILDT Margin (%)	4.77	7.14	10.47
Overall Gearing (times)	4.37	3.89	1.68
Interest Coverage (times)	1.57	2.92	5.04
Total Debt/Gross Cash Accruals (times)	21.36	8.77	2.49
Current Ratio (times)	1.15	1.21	1.45

A: Audited

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1.41	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Working Capital Limits	767.59	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	1.00	CARE-NP A3
Total		770.00	

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