Aashirbad Dal Mills Private Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	112.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	635.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	747.00 (Seven Hundred and Forty Seven Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Aashirbad Dal Mills Private Limited (ADMPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ADMPL are constrained by its below average financial risk profile indicated by leveraged capital structure and modest debt service coverage indicators, elongated operating cycle, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and the company's high reliance on import and foreign exchange fluctuation risk on such imports.

The ratings, however, derive strength from established and adequate track record of operations coupled with experienced promoters in the related field, increasing scale of operations with moderate profitability, stable demand outlook of lentil products, and locational advantage.

Going forward, ability of the company to profitably scale up its operations, manage its working capital requirements to support the growth in operations while improving its capital structure would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile marked by leveraged capital structure and modest debt service coverage indicators

ADMPL's capital structure was leveraged, marked by an overall gearing of 3.37x at the end of FY21 (Audited, refers to the twelve month period ended mid-July 2021) majorly on account of high dependence on bank financing to meet its working capital requirements. Consequently, the company's debt service coverage indicators were also modest with interest coverage ratio of 1.36x and total debt/ gross cash accruals (GCA) high at 30.05x in FY21. Although ADMPL's capital structure and debt service coverage indicators showed sequential improvement on y-o-y basis over the past three financial years (FY19-FY21), the indicators still remained below average. The rationalization of debt levels is critical from credit perspective, as a highly leveraged capital structure with less gearing headroom can limit the company's financial flexibility.

Elongated operating cycle marked by high inventory holding

The operations of ADMPL are working capital intensive in nature due to long operating cycle. The company is involved in processing of varieties of lentil products by procuring raw materials majorly via import from countries like Australia, Canada, Tanzania and Myanmar, due to which the company needs to hold sufficient volume of inventory owing to long lead time of more than three months. This resulted in the average inventory days of ADMPL at 263 days in FY21. The company imports

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

its raw materials via Letter of Credit, where payments are usually made at sight, whereas the company needs to provide reasonable credit to its customers, which are primarily wholesalers. The company's average collection period and average payable period stood at 29 days and 57 days respectively in FY21. Combining all, the company's net operating cycle stood elongated at 235 days in FY21, resulting in high reliance on bank finance for meeting its working capital needs. The average utilization of fund-based working capital limits was over 80% of the sanctioned limits during the twelve-month period ended mid-August 2022.

Susceptibility to price fluctuation of seasonal agro products

ADMPL is engaged in import and processing of five varieties of lentil products which are masoor, mas, rahar, chana and moong. As these are agro products, their prices are highly volatile in nature and depend upon various factors like demand-supply scenario and inventory carry forward of last year among others. Furthermore, the supply is also dependent upon factors such as volume of rainfall during the particular year as well as overall climatic condition in the lentil producing countries, thus exposing the fate of the firm's operation to vagaries of nature.

Fragmented and competitive nature of industry

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 ADMPL's product results in high competition from other players including traders as well. Considering the fragmented and competitive nature of industry, millers have relatively low pricing power.

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

ADMPL's business operations are dependent on the imports as domestic production is not sufficient to fulfil the demand. As significant purchases are made in the form of imports, the company is exposed to unfavorable changes in the government policy towards imports and also from the exporting countries. With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company's profitability margins are also exposed to volatility in foreign exchange.

Exposure to volatile interest rate risk

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. Increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates, which is also evident in the recent rate hike taken by BFIs in September 2022. 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.

Key Rating Strengths

Established and adequate track record of operations coupled with experienced promoters in the related field

ADMPL commenced its operations in 2016 and has around six years of track record in the agro industry. ADMPL along with its group associates, collectively known as Shivam Organization, is engaged in rice processing, pulse processing, cattle feed and poultry feed production, soya nugget production, import of spices, dry fruits and agro commodities. Mr. Shivajee Prasad Sah

Kalwar, Chairman, is an active committee member of Birgunj Chamber of Commerce and has led the Rice, Oil and Pulses Association of Birgunj. He is also the chairman of Shivam Saving and Credit Co-operative Limited and promoter of Mahalaxmi Life Insurance Limited. Mr. Pramod Kumar Shah, Managing Director, is also the managing director in Shivam Agro Industries Private Limited [CARE-NP BB/A4+] and an active director in various other companies within Shivam Organization. The board is aptly supported by an experienced management across various functions.

Locational advantage

The company's plant is located in Birgunj, Parsa district of Nepal. The plant site is located within 1 km from Birgunj dry port in Nepal-India Border which provides the company an advantage of supply of raw material at a relatively lower transportation cost than its competitors. While the company sells its products via wholesalers throughout Nepal, Kathmandu is its major market which is around 90 km from its plant site. Considering the central location of the plant site, ADMPL has an advantage in terms of transportation of its finished products throughout Nepal as well.

Increasing scale of operations and moderate profitability

The total income of ADMPL grew at a compounded annual growth rate of around 23% over FY18-FY21. The scale of operations of the company increased significantly after commencement of operations from newly setup manufacturing facility in FY21, prior to which the company carried its operations via leased facility. The increasing scale of operations also led to benefits arising from economies of scale. Considering that demand scenario in the domestic market is fairly stable and increased input prices are generally transferred to final price, profitability levels generally depend upon input prices of raw materials in the international market. PBILDT margin of the company stood moderate at 8.32% in FY21, declining from 13.46% in FY20 despite growing sales, majorly on account of substantially higher input prices during the year.

Stable demand outlook of lentil products

Demand of lentil products has been rising in Nepal with lentil being part of staple food of Nepalese population. Furthermore, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal. Being a net importer of pulses, Nepal has seen a steady growth in import over the years, which however declined in FY21.

About the Company

Aashirbad Dal Mills Private Limited (ADMPL) is a private limited company incorporated on August 9, 2016 for processing of dal (lentil) products with its manufacturing facility is located in Parsa, Birgunj, Nepal. The major operations of company involves import of unprocessed lentil, processing and selling under its registered brand 'Jagat'. The company has two processing units, namely Mas Mill with 35 Metric Tons Per Day (MTPD) for the processing of Moong Dal and Mas Dal, and Masoor Mill with installed capacity of 40 MTPD for the processing of Chana Dal, Masoor Dal and Rahar Dal, both of which came into operations from January, 2021.

Brief financials of the company for the past three years ended mid-July, 2021 is shown as follows:

For the year ended Mid-July	FY19 (Audited)	FY20 (Audited)	FY21 (Audited)
Income from Operations	403	407	828
PBILDT Margin (%)	12.73	13.46	8.32
Overall Gearing (times)	6.85	5.47	3.37
Interest Coverage (times)	1.09	1.10	1.36
Current Ratio (times)	1.27	1.18	1.45
Total Debt/Gross Cash Accruals (times)	114.23	113.04	30.05

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	112.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	135.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	500.00	CARE-NP A4
Total		**747.00**	

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