Maruti Food Park Private Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	220.31	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	529.69	CARE-NP A4 [A Four]	Assigned
Total Facilities	**750.00**		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of Maruti Food Park Private Limited (MFPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MFPPL are constrained by its below average financial risk profile marked by leveraged capital structure and moderate debt service coverage indicators, working capital intensive nature of operations, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates.

The ratings, however, derive strength from the company's experienced promoters and management team in the related field, growth in scale of operations with moderate profitability, major Nepalese diet leading to stable demand, and established marketing setup with own brand and locational advantage.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile marked by highly leveraged capital structure albeit with moderate debt service coverage indicators

MFPPL's capital structure stood leveraged at the end of FY22 (Unaudited, FY refers to the twelve-month period ended mid-July), with debt-equity ratio of 1.29x (PY21: 1.68x) and overall gearing of 3.99x (PY21: 4.59x). While the gearing ratios improved during FY22 majorly on account of increase in net worth upon accretion of the profit, the ratios still remained on higher side due to high utilization of working capital facilities. This coupled with higher interest rates in FY22 led to increase in interest expenses, resulting in a decline in the company's interest coverage ratio to 2.33x (PY21: 3.92x). Total debt to gross cash accruals of the company stood moderate at 9.78x in FY22, which deteriorated from 7.30x in FY21 (Audited) due to increased working capital borrowings to support increased scale of operations.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. MFPPL is involved in processing of paddy into rice by procuring raw materials both locally and via import. Due to seasonal nature of raw materials, MFPPL regularly needs to maintain inventory for at least three months for smooth operations. In addition, the company also needs to extend credit to its customers, which leads to reliance on working capital limits. During FY22, the average collection period was 47 days, average inventory period was 61 days and average creditor period was 23 days, which led to an operating cycle of 85 days (FY21: 99 days). Due to these reasons, the company relies on bank borrowings to fund its working capital requirement. After

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

the harvesting season (generally starts from November), the company generally procures raw materials in high volume, for which it avails additional working capital borrowings in the form of non-revolving short term facilities. At the end of FY22, company utilized Rs. 200 Mn as such borrowings. The company's ability to manage its growing scale of operations in pursuant of high working capital requirements is critical in terms of credit perspective.

Susceptibility to price fluctuation of seasonal agro products

Paddy is a seasonal crop and harvesting is generally dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile, as their production and prices also depend upon 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.

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 and capital requirement. Low product differentiation of MFPPL's product results in high competition from other players including traders, millers and wholesalers. Considering the fragmented and competitive nature of industry, millers have low pricing power. Furthermore, Nepal being agriculture based nation, consumption for household purpose is f 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. 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 October 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

Experienced promoters and management team in the related field

MFPPL's promoters have an experience of more than two decades in the agro trading industry. MFPPL is managed under the overall guidance of its five-member Board of Directors (BoD) which includes experienced businessmen/industrialists with wide experience, especially in the food and agro trading sector. Mr. Dhiraj Kumar Agrawal, Chairman, is also a Director in Ten Steels Private Limited (steel pipe manufacturer) and Ten Plast Private Limited (plastic pipe manufacturer). The board is aptly supported by an experienced management team across various functions.

Established marketing setup with own brand and locational advantage

MFPPL sells its products all over Nepal and has a customer base spread across all major cities in the country. Sales are made through direct marketing to existing as well as new customers, who are mainly wholesalers and large scale retailers. The company sells these products under five different registered brands, which provides competitive advantage to the company against new players entering the industry. The company's manufacturing facility as well as storage facility are located at only

28 km from Sunauli border (one of the major custom points between Nepal and India), which gives the company an advantage in terms of inward transportation cost. Import purchase comprised of around 70% of total purchase in FY22. Furthermore, the production facility is located in central terai region of Nepal, which gives the company an access to market throughout Nepal.

Growing scale of operations with moderate profitability

MFPPL's total revenue stood at Rs. 1,169 Mn during FY22, increasing 45.25% over FY21 majorly on account of increase in total quantity sold supported by increased price realizations. PBILDT margin of the company stood at 8.52%, which however declined by 219 basis points from FY21. The decline in PBILDT margin was on account of higher input prices of raw materials in FY22 which were not fully transferred to final price due to competitive pressures. Earlier in FY21, the company had also benefitted from inventory gains leading to higher profit margins. The scale of operations is likely to grow steadily over the medium term amid stable demand outlook. However, the company's ability to maintain profitability margins at current levels remains to be seen, particularly in an increasingly competitive industry and will remain a key monitorable aspect.

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.

About the Company

Maruti Food Park Private Limited (MFPPL) is a private limited company incorporated on October 23, 2019 for processing of paddy into rice. The company's manufacturing facility is located in Ramgram, Nawalparasi with total installed capacity of 33,840 Metric Ton Per Annum. MFPPL produces rice and sells them under five different brands, namely Tanishq, Kathmandu Gate, Buddha Gate, Seto Himal and H&T. MFPPL generates its revenue from sale of rice and byproducts such as kanika, bran and husk.

Brief financials of the company for the past two financial years are shown as follows:

For the year ended Mid-July	FY21 (Audited)	FY22 (Unaudited)
Income from Operations	808	1,174
PBILDT Margin (%)	10.71	8.52
Overall Gearing (times)	4.59	3.99
Interest Coverage (times)	3.92	2.33
Current Ratio (times)	0.88	0.89
Total Debt/Gross Cash Accruals (times)	7.30	9.78

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	220.31	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	529.39	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	0.30	CARE-NP A4
Total		**750.00**	

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