Asian Feeds Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Rating[1]	Rating Action
Short Term Bank Facilities	**504.67**	**CARE-NP A4+ [A Four Plus]**	**Revised from CARE-NP A4**
Total Facilities	**504.67 (Five Hundred Four Million and Six Hundred Seventy Thousand Only)**		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the short term bank facilities to 'CARE-NP A4+' from 'CARE-NP A4' of Asian Feeds Private Limited (AFPL).

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of AFPL factors in the overall improvement in the financial risk profile of the company in FY22 (Audited; FY refers to the twelve-month period ending mid-July) marked by growing total operating income with steady profitability, rationalization of operating cycle leading to improved cash accruals, and improved capital structure of the company. However, the rating continues to be constrained by working capital intensive nature of the business resulting in an elongated operating cycle mainly due to a high collection period, exposure to foreign exchange fluctuation risk and raw material price volatility. The rating also factors in revenue concentration in poultry feeds and inherent risk associated with poultry business, competitive nature of feed industry and exposure to volatile interest rate.

The rating, however, continues to drive strengths from experienced board members of the company, established dealer network and stable demand outlook for the industry over the medium-term.

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of business leading to elongated operating cycle

The operations of AFPL are working capital intensive in nature as the business requires to maintain adequate inventory of raw material and finished goods to avoid stock-outs. Furthermore, being an agro product the availability of raw material is seasonal and major portion of raw material has to be imported from India and third countries, it is critical for the company to maintain adequate levels of inventory. Although average inventory days decreased to 33 days in FY22 from 84 days in FY21 supported by better inventory management and relatively lower inventory levels at the end of FY22, the business is likely to demand average inventory of around two months on a sustained basis. Furthermore, amid intense competition in the market, AFPL has to provide higher credit period to its customers. Although on an improving trend over the past few years, the average collection period remained of the company high at 113 days during FY22 (FY21: 152 days). However, despite improvement in collection days and inventory days, AFPL's net operating cycle remained high at 121 days during FY22 (PY: 188 days). The average monthly fund-based working capital utilization for the past twelve months ended mid-July 2022 was high around 90% of the sanctioned limits.

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

Exposure to foreign exchange fluctuation risk and raw material price volatility risk

Grains (which mainly include Maize, Paddy and Pulses) and Oil Cake (which mainly include Soya Cake, Soya Oil and Mustard DOC) are the major raw materials of AFPL which contribute around 84 % of total raw material cost of the company. AFPL has not entered into long term contracts with suppliers of raw material ensuing the company towards the exposure of risk associated with volatility in price and timely availability of raw materials. Additionally, AFPL has limited ability to pass the increased cost of raw material to consumers as change in feeds price is decided by Nepal Dana Udyog Sangh which is followed by all feeds companies, resulting likelihood of impacting its profitability.

The company is also exposed to foreign exchange rate fluctuation risk as a substantial portion of the procurement is in foreign currency and sales realization is majorly in domestic currency. AFPL incurred foreign exchange loss of Rs. 6 Mn in FY22 as compared to gain of Rs. 2 Mn in FY21. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials remain crucial from its profitability perspective.

Concentrated business over poultry feeds and inherent risk of poultry business

Poultry being one of the largest sector in livestock farming, AFPL currently derives around 96% of its revenue from sale of poultry feeds. This has led to the concentration of business over poultry feeds and high reliance on its single product type i.e. Poultry Feed. Poultry business remains susceptible to inherent risk such as Bird Flu breakout which occurs every year during the start of summer thus impacting sale of poultry feeds.

Fragmented and competitive nature of industry

The feed industry is highly competitive and fragmented with many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition. Due to the stiff competition, the pricing of feeds remains volatile and also varies from place to place. Furthermore, inherent risk such as perishable nature of product, constraints in transportation, cost of feeds and diseases affect poultry business. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in feed sector.

Exposure to volatile interest rate

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 few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. 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 track record of operations along with experienced promoters and management team

AFPL has an operational track record of over a decade with an established market for its products. The company is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the different sectors. AFPL has five directors in its board chaired by Mr. Bashu Dev Joshi, who manages trade, finance and administration department of the company and has over two decades of experience in different businesses. Mr. Suresh Lohani, director, is engaged in IT business since more than two decades and also manages inventory and production department. Mr. Devi Prasad Gautam, director, has been engaged in poultry feeds trading business for more than a decade and looks after sales and marketing department. The BOD are further supported by a team of experienced management team members.

Improving financial risk profile in FY22 marked by growing scale and improved capitalization levels

AFPL derives its revenues from sale of poultry feeds (Broiler, Layers and Giriraj Feeds) and livestock feeds (Cattle, Pig and Goat). During FY22, total operating income (TOI) of the company grew by 48% to Rs. 1,980 Mn from Rs. 1,334 Mn in FY21. The growth was majorly on account of increase in overall quantity sold amid increasing demand with sales in previous two financial years impacted by the covid-19 pandemic. PBILDT margin remained largely steady at 6.53% in FY22 compared to 6.25% during FY21, despite increasing input prices. Consequently, the company achieved net profit of Rs. 51 Mn during FY22, improved from Rs. 29 Mn during FY21. Similarly, Gross Cash accruals (GCA) increased to Rs. 62 Mn in FY22 from Rs. 38 Mn in FY21. Furthermore, the sales trend has sustained so far in FY23 with the company booking revenue of Rs. 1,042 Mn during H1FY23 (Unaudited; refers to the six-month period ended mid-January 2023) majorly through sales of broiler feeds (~66% of total sales).

Supported by an improving net worth base owing to accretion of profits, the capital structure of the company has been on an improving trend over the last couple of years. Overall gearing ratio improved to 2.07x at the end of FY22 from 2.21x at the end of FY21 (FY20: 3.48x). Despite growing debt levels to support increasing scale of operations, the company has been able to improve its overall capitalization levels aided by an improving collection period. Consequently, debt service coverage indicators of the company have also improved in FY22 with interest coverage of 2.97x (PY: 2.18x) and Total Debt/Gross Cash Accruals (GCA) of 9.42x (PY: 13.19x).

Established dealer network

AFPL commenced its operation in 2011 and has established dealer network of 308 dealers in FY22 (257 dealers in FY21). Contract with dealers are on normally on annual renewal basis where AFPL provides incentives (such as trade discount and credits) to large dealers based on company's policy. Sales are mostly made to dealers on credit basis which in most cases is backed by bank guarantee and land guarantee.

Stable demand outlook over the medium term

As per the National Economic Survey 2020/21, the production of meat has increased by 54.6% to 552,000 metric tons in FY20 with egg production of 1.49 billion units. Furthermore, the production of meat has annualized growth of 3.53% and the production of egg stood at 1.09 billion units in 8MFY22 (refers to the eight-month period ended mid-March 2022). Poultry feeds (mainly Broilers and Layers) being major business segment of AFPL (contributed more than 96% of total sales in FY22) and increasing trend of meat and egg industry is likely to benefit feed industry players like AFPL. Poultry feed is given to chicken as a better substitute of traditional feeds (i.e. Oil cakes, Cereals etc.) and in view of the expected rise in consumption of chicken and eggs, poultry farming is expected to grow which indicates high growth potential for feeds industry.

About the Company

AFPL was incorporated on September 29, 2011 as private limited company and is promoted by individual promoters. The manufacturing process of AFPL is ISO 9001:2008 certified. Its registered office is located in Kathmandu, Nepal and the plant is located at Budiganga Rural Municipality, Morang, Nepal. The company is into manufacturing poultry and other livestock feeds.

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

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,272	1,336	1,982
PBILDT Margin (%)	7.08	6.25	6.53
Overall Gearing (times)	3.48	2.21	2.07
Interest coverage (times)	1.90	2.18	2.97
Current Ratio (times)	1.12	1.21	1.26
Total Debt/Gross Cash Accruals (times)	27.93	13.19	9.42

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based /Non-fund Based	504.67	CARE-NP A4+
Total		**504.67**	

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About CARE Ratings:

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