Surya Pulse and Processing Private Limited

Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	18.39	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	975.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	993.39 (Nine Hundred Ninety-Three Million Three Hundred and Ninety Thousand Only)		

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 the rating of 'CARE-NP A3' to the short-term bank facilities of Surya Pulse and Processing Private Limited (SPPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to SPPPL derive strength from the moderate financial risk profile of the company characterized by improving profitability margins, low gearing levels and adequate debt service coverage indicators over FY20-FY22 (Audited, FY refers to the twelve-month period ending mid-July). The ratings also factor in SPPPL's established marketing setup with locational advantage for raw materials, reasonable brand presence, and stable demand outlook for its products over the medium term with lentils being among the major staple food in the country.

The ratings, however, are constrained by SPPPL's declining scale of operations, working capital intensive nature of operations leading to elongated net operating cycle, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, high reliance on import and foreign exchange fluctuation risk and exposure to volatile interest rates.

Going forward, the ability of SPPPL to sustain growth in scale of operations while maintaining profitability levels along with rationalization of its debt through efficient working capital management would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

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

SPPPL started its commercial operation in July 2013 and is involved in processing and supplying variety of pulses under the brand name "JUNELI". SPPPL is promoted by the Minda family, which is involved in various businesses including processing and trading pulses, rice and seeds. Mr. Sanjaya Kumar Minda, Chairman, heads the overall business and has more than three decades of experience in agro food processing and allied business.

Locational advantage

SPPPL's plant is located in Dhaijan rural municipality, Jhapa district of Nepal. The raw materials are transported by road through Kakarvitta border of Nepal which is ~10kms from the plant which makes the location of the plant near to the Indian State West Bangal and provides SPPPL an advantage of supply of raw material at lower transportation cost. SPPPL also uses

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

Kakarvitta Border, either via railways or via road. Further, it has depot in Kathmandu and Jhapa and has distributors across eastern and central part of Nepal.

Moderate financial risk profile

SPPPL generates its revenue from sales of various pulses with ~60% of sales consisting of lentils such as Arahar Dal, Maas Dal, Masoor Dal, Chana Dal, Moong Dal and Mater Dal. Although the company has managed pretty resilient profitability levels with PBILDT margins of 8-9%, its sales have been declining over FY21-FY22. Total operating income of SPPPL declined on y-o-y basis from Rs 1,740 Mn in FY20 to Rs 1,364 Mn in FY 22, with sales impacted by various restrictions amid the pandemic. The company has been able to achieve improved sales of around Rs. 720 Mn in H1FY23, and a sequential growth is expected for FY23. Despite the growth in total operating income, PBILDT margin improved during the same period from 5.77% in FY19 to 8.91% in FY22 on account of favorable change in product mix. Similar improvement has also been noted in its PAT margin from 2.02% in FY19 to 5.18% in FY22. Being present in the industry of processing and trading of agriculture commodities, the profitability of the company is exposed to fluctuation in prices as well as availability of agriculture commodities. However, the company's steady margins show its ability to adequately pass through any such changes.

SPPPL's overall gearing ratio stood at 0.89x at the end of FY22, improving from 1.67x in FY21 aided by lower debt levels and increased net worth amid accretion of profits to the reserve. SPPPL's debt service coverage indicators have also remained adequate with interest coverage ratio of 9.07x in FY22, although moderated from 10.11x in FY21 due to slight decrease in PBILDT and increase in interest expenses amid higher rates in the market. Nevertheless, Total Debt to GCA improved to 3.29x in FY22 (FY21: 5.05x) on account of lower debt levels at the year end. Amid low capex requirement, and barring incremental working capital requirement, the company's debt levels are likely to remain in proportionate to its scale, leading to gearing levels expected to be maintained below 1.5x over the medium term.

Key Rating Weaknesses

Working capital intensive nature of business with elongated net operating cycle

The operations of SPPPL are working capital intensive with majority of purchases from foreign countries having short credit period. The company has to make high volume procurement of agro products through imports. Furthermore, due to seasonal nature of raw materials, SPPPL has to keep enough inventory for smooth operations. SPPPL's average inventory holding period remained at around five months at the end of FY22. Average collection period was more manageable at 36 days at the end of FY22. However, amid a high inventory holding coupled with low creditors days, the net operating cycle of the company was around six months leading to reliance of the company on bank finance for the working capital needs.

Susceptibility to price fluctuation of seasonal agro products and competitive nature of industry

SPPPL is engaged in import and processing of pulses primarily Masoor Dal (Red Lentils), Yellow Peas and Green Peas. Prices of pulses are highly volatile in nature and being agro products are seasonal in nature with production and prices dependent on various factors like area under production, yield for the year, demand supply scenario and inventory carry forward of last year. Further, the supply is dependent upon monsoon of the particular year as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

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 SPPPL's product results in high competition from other players including traders. Considering the fragmented and competitive nature of industry, the millers have low pricing power. The pricing is market driven and Government of Nepal has not yet provided any minimum support pricing for the pulse industry.

High reliance on import coupled with foreign exchange fluctuation risk

SPPPL is highly reliant on imports as its most of its pulses are imported from Australia, Burma, Tanzania and Canada. Almost 95% of the purchases are imported by the company. However, the company doesn't hedge its foreign currency exposure which exposes it to the risk associated with fluctuations in foreign currency exchange rates.

Exposure to volatile interest rates

Majority of SPPPL's debt is working capital related. Given the elongated operating cycle of the company, SPPPL's requirement for borrowings to meet working capital remains elevated. The company pays interest on 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. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

About the Company

Surya Pulse and Processing Private Limited (SPPPL) is a private limited company established in 2008 which started its commercial operation from July 2013 to process, import and sell various kinds of Pulses & Grains. SPPPL deals in various kinds of pulses like Masoor Dal (Red Lentils), Australian Channa/ Dal, Maas Dal (Urad/Black Matpe), Green Mung Dal, Arahar Dal (Pigeon Peas), Hariyo kerao (Green Peas), Seto Kerao (Yellow Peas), popcorn, rajma, etc. The company also sells Cattle feed and its by-products Chunni, Tiwar Kanika, etc. which forms around 5% of its total sales. Company sells Dal under the brand name "JUNELI" and has more than 60% of sales consisting of various kinds of lentils. SPPPL caters to its customers through two sales depots in Kathmandu, and Jhapa.

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

(Rs. Million)

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	1,740	1,456	1,364
PBILDT Margin (%)	7.90	8.88	8.91
Overall Gearing (times)	1.09	1.67	0.89
Interest Coverage (times)	5.35	10.11	9.07
Total Debt/Gross Cash Accruals (times)	3.16	5.05	3.29
Current Ratio (times)	1.48	1.30	1.38

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**	**18.39**	**CARE-NP BBB- [Triple B Minus]**
Short Term Bank Facilities	**Fund/ Non-Fund Based Limits**	**975.00**	**CARE-NP A3 [A Three]**
Total		**993.39**	

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