

## Jay Shree Foods Private Limited

### Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Short Term Bank Facilities	1000.00 (Increased from 980.50)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	1000.00 (One Thousand Million only)		

*Details of Facilities/Instruments in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A3' assigned to the short-term bank facilities of Jay Shree Foods Private Limited (JFPL). CRNL has withdrawn the rating assigned to the long-term bank facilities of JFPL upon JFPL's request for withdrawal, as the company has paid its long-term loan in full and there is no amount outstanding under the facilities.

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of JFPL continue to derive strength from its established track record of operations, resourceful promoters along with experienced management team in the related field, moderate financial risk profile of the company marked by growing scale of operations along with moderate gearing levels and debt service coverage indicators. The ratings also factor in JFPL's established brand and marketing setup with locational advantage for raw materials, moderate operating cycle, and stable demand of rice products being major Nepalese diet.

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

*Going forward, the ability of the company to manage growth in operations while improving 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, resourceful promoters along with experienced management team in the related field**

JFPL has been involved in the rice processing business for over a decade in Nepal. The promoters of JFPL have experience of more than three decades in the food industry. JFPL is currently managed under the guidance of Mr. Pawan Kumar Agrawal and Mrs. Suman Agrawal. Mr. Agrawal, Managing Director, has over three and a half decades of experience in food processing and trading industry. The management team is aptly supported by experienced professionals across various functions.

#### **Moderate financial risk profile**

Total operating income of the company increased by 5.79% year-on-year (y-o-y) to Rs. 2,989 Mn during FY22 (Audited, FY refers to the twelve-month period ended mid-July), majorly on account of higher price realizations, although quantity sold moderated slightly. Revenue growth momentum continued during 6MFY22 (Unaudited, refers to the six-month period ended mid-January 2023) as JFPL booked total revenue of Rs. 1,704 Mn, registering a yoy growth of 14.05% (annualized). PBILDT margin increased by 50 bps yoy to 5.76% during FY22 due to favorable product mix coupled with inventory gains. Consequently, net profit also improved to Rs. 67 Mn in FY22 compared to Rs. 62 Mn in FY21. In the past few years, the

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

company's profitability margins have been steady, albeit moderate, owing to low value addition and intense market competition given the highly fragmented nature of the industry.

Interest coverage ratio, however, moderated slightly to 3.14x during FY22 (FY21: 3.80x) on account of higher interest expenses offsetting increase in PBILDT. Increased net profit led to increase in gross cash accruals (GCA) during FY21. Total debt/ GCA, however, rose slightly to 6.13x at the end of FY22 from 5.75x at the end FY21. Total debt increased to Rs. 556 Mn at the end of FY22 from Rs. 466 Mn at the end of previous fiscal year. Overall gearing ratio of the company was moderate at 1.59x at the end of FY22, improved marginally from 1.62x at the end of FY21 majorly on account of improved net worth, although total debt had increased on account of higher utilization of working capital borrowings.

### **Established brand and marketing setup**

JFPL sells its products under various registered brands established in the Nepalese market, thereby giving it competitive advantage over new players entering the industry. JFPL sells its products all over Nepal and has a customer base of more than 600 large and small scale retailers spread across all major cities in the country. Furthermore, to support its marketing and sales, JFPL has offices and godowns located at major cities of Nepal focused in the Terai region (Nepalgunj, Bhairahawa, Gaidakot, Birgunj and Biratnagar) thereby facilitating procurement of raw material with favorable pricing terms. Furthermore, the processing unit JFPL is located nearby Indian border from where the company has been getting locational benefit for import of raw materials at lower transportation cost.

### **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. Furthermore, due to availability of products with varied packaging option ranging from 1 kg to 30 kg, JFPL has been able to attract both Business-to-Business and Business-to-Customer segment.

### **Key Rating Weaknesses**

#### **Elongation of operating cycle**

JFPL is operating a rice mill and the raw materials are procured both domestically and in the form of imports. Due to seasonal nature of raw materials, JFPL regularly needs to maintain stock for around two months for smooth operations. In addition, the company needs to extend credit to their customers, leading to reliance on working capital limits. JFPL generally allows up to two months of credit period to its customers. With average collection period of 48 days, average inventory days of 48 days, and average credit period of 24 days, the total operating cycle of the company was 74 days in FY21, elongated slightly from 59 days in FY21 mainly due to longer inventory holding period. The average utilization of fund-based working capital limit against sanctioned limit was around 67% during the ten-month period ended mid-April 2022.

#### **Susceptibility to price fluctuation of seasonal agro products**

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 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 & capital requirement. Low product differentiation of JFPL's products results in high competition from other players, including traders. Considering the fragmented and competitive nature of industry, millers 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 rate

Given the elongated operating cycle of the company, the company'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 monthly 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

JFPL is a private limited company established in 2009 for processing of paddy into rice, and production of beaten rice and soya nuggets, with its processing facility in Gaidakot, Nawalparasi, Nepal. JFPL deals in varieties of rice such as long grain rice, jeera rice and sawa rice, and sells them under various brands with major brands being Bhansaghar and Mangalam.

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

(Amount in Rs. Million)

For the year ended Mid-July	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,648	2,825	2,989
PBILDT Margin (%)	5.91	5.26	5.76
Overall Gearing (times)	1.58	1.62	1.59
Interest Coverage (times)	2.47	3.80	3.14
Total Debt/Gross Cash Accruals (times)	5.76	5.78	6.14
Current Ratio (times)	1.11	1.10	1.13

### 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 Working Capital Limits	990.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	10.00	CARE-NP A3
<b>Total</b>		<b>1,000.00</b>	

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