

## Ananda Agro Industries Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	263.18	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	559.90	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>823.08</b>		

*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 Ananda Agro Industries Private Limited (AIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AIPL are constrained by its leveraged capital structure and moderate debt service coverage indicators, highly elongated operating cycle amid 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 strengths from the company's experienced promoters in the related field, growing trend in scale of operations over the last three fiscals along with moderate profitability, stable demand outlook rice being a major Nepalese diet, 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

#### Leveraged capital structure and modest debt service coverage indicators

AIPL's capital structure stood leveraged at the end of FY22 (Audited, FY refers to the twelve-month period ending mid-July), with debt-equity ratio of 1.15x (FY21: 1.50x) and overall gearing of 3.54x (FY21: 3.66x). AIPL's total debt at the end of FY22 stood at Rs. 836 Mn which comprised of term debt of Rs. 272 Mn and remaining was working capital loan. The company had sizable long-term debt outstanding on account of its partly debt funded capex three years ago, and has also availed bank borrowings to fund its working capital intensive operations. Consequently, interest coverage ratio was modest at 1.53x in FY22, albeit improving slightly from 1.06x in FY21, on account of improved profitability. Total debt/ GCA of the company was high at 23.20x in FY22.

#### Highly elongated operating cycle

The operations of AIPL are working capital intensive in nature owing to its lengthy operating cycle. The company is involved in processing of paddy into rice by procuring raw materials both locally and via import. Due to seasonal nature of raw materials, AIPL needs to maintain inventory for at least three months for smooth operations. In addition, the company also needs to extend credit to its customers owing to competitive pressures. During FY22, the average collection period was 101 days, average inventory period was 171 days and average creditor period was 14 days, which led to an operating cycle of 258 days. Due to elongated operating cycle, the company relies on bank borrowings to fund its working capital requirement.

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

AIPL's ability to manage its growing scale of operations in pursuant of high working capital requirements is critical from 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 AIPL'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 met through small scale domestic production as well.

#### **Exposure to volatile interest rates**

Given the highly elongated operating cycle, the company's requirement for bank borrowings to meet working capital is 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.

#### **Key Rating Strengths**

##### **Experienced promoters in the related field**

Although AIPL has a relatively short operational track record of only three years, its promoters have an experience of more than two decades in the food industry. AIPL is managed under the overall guidance of its three-member Board of Directors (BoD) which includes experienced businessmen/industrialists in various sectors. Mr. Ananda Panthi, Chairman, is also the Chairman of Ananda Soya Udhog Private Limited, Ananda Dana Udhog Private Limited, Ananda Rice and Oil Private Limited, Ananda Khadya Udhog Private Limited and a Sole Proprietor in Ananda Dal Mill. The promoters of the company have infused around Rs. 92 Mn, as share application money in last 3 FYs (FY20-FY22).

##### **Established marketing setup with own brand and locational advantage**

AIPL sells its products all over Nepal and has a customer base spread across major cities in mid-western region of the country including Kathmandu which provides a ready market for its products. These sales are made through direct marketing to existing as well as new customers. The sales are executed directly through factory in Rupandehi. The company sells these products under three different registered brands in Nepalese market. This has provided competitive advantage to the company against newer players entering the industry. The company's manufacturing facility as well as storage facility are located in central terai region and is only around 30 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, although the company fulfils only

a small volume of its raw material requirements via import. Furthermore, the central location of the production facility provides advantage in terms of procurement from Nepalese farmers/stockists as well as accessibility of viable market throughout Nepal.

### Growing scale of operations with moderate profitability

AIPL generates its revenue from sale of rice and byproducts such as broken rice, bran and husk. Total operating income of the company stood at Rs. 890 Mn during FY22, growing with a Compounded Annual Growth Rate (CAGR) of over 32% since it became operational in FY20. Growth was majorly on account of increased sales volume coupled with price realizations. The scale of operations is likely to grow steadily over the medium term amid stable demand outlook. PBILDT margin of the company stood at 12.54% in FY22 (11.34% and 6.08% in FY20 and FY21, respectively). Lower PBILDT margin in FY21 was majorly on account of less favorable product mix. Market price of rice increased in FY22 and has further increased in FY23 amid supply side inflationary pressures. 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

Ananda Agro Industries Private Limited (AIPL) is a private limited company incorporated on May 16, 2016 for processing of paddy into rice. The company's manufacturing facility is located in Rohini, Rupandehi with total installed capacity of 6 Metric Ton Per Hour. AIPL produces rice and sells them under three different brands, namely Bhagat, Kalash and Trinetra.

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

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	510	822	890
PBILDT Margin (%)	11.34	6.08	12.54
Overall Gearing (times)	3.48	3.66	3.54
Interest Coverage (times)	1.40	1.06	1.53
Current Ratio (times)	1.23	1.24	1.27
Total Debt/Gross Cash Accruals (times)	24.11	25.24	23.20

### 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	263.18	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	559.90	CARE-NP A4
<b>Total</b>		<b>823.08</b>	

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