

Maa Durga Foods Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	125.00	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	975.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,100.00 (One thousand One Hundred Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Maa Durga Foods Private Limited (MDF).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MDF continue to be constrained by its below average financial profile marked by low profitability levels, leveraged capital structure and modest debt service coverage indicators of the company. The ratings are further constrained by elongated operating cycle resulting in high reliance on bank borrowings, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, exposure to regulatory risk and volatile interest rates.

The ratings, however, continue to derive strength from experienced promoters and management team, established marketing setup with decent product diversification along with own brand and stable demand outlook over the medium term, despite near-term supply constraints, for its products with wheat being one of the major Nepalese diets. The ratings also take cognizance of the increasing trend in scale of the operations of the company over the last three fiscals ended FY22 (Audited, FY refers to the twelve-month period ending mid-July).

Going forward, the ability of the company to sustain growth in operations while improving the profit margins and rationalization of its debt through efficient working capital management leading to improvement in its solvency and liquidity indicators would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial profile marked by low profitability levels, however with growth in sales

Total operating income of the company increased by ~10% year-on-year to Rs. 1,082 Mn in FY22 over FY21, majorly on account of increase in total quantity sold of its products. However, amid increased cost of sales, PBILDT margin of the company declined to 8.99% in FY22 from 10.76% in FY21.

Furthermore, PAT margin of the company declined to 0.45% in FY22 from ~2.56% in FY21 impacted by increase in interest cost of the company amid higher utilization coupled with higher interest rates. Revenue momentum is likely to moderate in FY23 amid supply constraint due to restrictions in import of wheat from India.

Leveraged capital structure and modest debt service coverage indicators

Overall gearing ratio of the company was stood at 2.95x at the end of FY22 which deteriorated from 2.18x at the end of FY21 mainly increased in short term loans amid growing operations of the company. Total debt of the company increased from Rs. 858 Mn at the end of FY21 to Rs. 921 Mn at the end of FY22, which comprised of term debt of Rs. 135 Mn and

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

working capital loans of Rs. 786 Mn. Furthermore, declining profitability margins has led to deterioration in total debt to GCA levels from 26.35x at the end of FY21 to 100.81x at the end of FY22. Similarly, other debt service coverage indicators of the company also declined on a year-on-year basis in FY22 amid lower profitability and higher interest outgo. Interest coverage was modest at 1.10x in FY22 compared to 1.44x in FY21.

Elongated operating cycle leading to high reliance on borrowings

The operations of the company are working capital intensive in nature marked by elongated inventory holding period and average collection period. MDF is involved in processing of wheat into various other edible items by procuring raw material both locally and by importing from India. Majority of wheat requirement is met through domestic purchase from various stockiest for which the company has been making payments within 60 days. Due to seasonal nature of raw materials, MDF maintains high stock levels during the harvesting season of crop for smooth operations. Average inventory days was 195 days at the end of FY22 which was improved from 241 days at the end of FY21. Also, MDF allows 3-4 months credit period to its customers, average debtors turnover days was 129 days at the end of FY22 which slightly improved from 140 days at the end of FY21. Total operating cycle of the company was high at 310 days at the end of FY22. This had led to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against drawing power was around 87% for the last 12 months.

Susceptibility to price fluctuation of seasonal agro products

MDF deals in various wheat products. Prices of these products 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 availability of seed, impacts of pests, monsoon during the particular year as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

Fragmented and competitive nature of industry

The flour-milling industry is highly fragmented due to presence of several organised/ unorganised players owing to low entry barrier and low technology and capital requirement. Low product differentiation of MDF'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. Further, Nepal being agriculture-based nation, consumption for household purpose is produced in domestic level as well.

Exposure to volatile interest rates and regulatory risk

Sustained requirement for short-term working capital borrowings has led to relatively high interest outgo for MDF (Rs. 88 Mn during FY22), impacting its net profitability. The company's interest rates are based 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. Amid tight liquidity interest rates have been on the higher side over FY22 and so far in FY23. Consequently, interest burden of the company is likely to have remained higher in FY23 as well, squeezing its profitability and impacting its liquidity position.

MDF is partially constrained by regulatory risk arising from various laws and policies in Nepal. Earlier, before FY19, sales of maida products used to get 25 percent VAT refund at the end of the fiscal year. But the budget announcement for 2018-19 scrapped the provision. Also, from FY20, sales of aata were brought into VAT bracket. Furthermore, earnings of the company are also susceptible to regulatory policies relating to tariff barriers and export policies of India, which is the major supplier of wheat to Nepal. India has restricted exports of wheat with effect from May 14, 2022 which has affected

the availability of raw materials to flour manufacturers like MDF. A sustained supply constraint could impact the business prospects of the wheat processing/trading companies in Nepal. This will remain a key monitorable aspect.

Key Rating Strengths

Experienced management team with established and long track record of operations.

The promoters of MDF have an experience of over a decade in the various industries. MDF is managed under the overall guidance of its four-member Board of Directors (BoD) which includes experienced businessmen/industrialist with wide experience in the manufacturing and trading sector. Mr. Anoj Rungta, chairman, has over a decade of experience and been involved in the company from last 5 years. He looks after the overall operations of the company. Mr. Vishal Patwari, director has an experience of two decades in the various industry. The promoters have also been infusing funds to support operations of the company.

Established marketing setup and product diversification

MDF has an established distribution network centered at major cities across Nepal. As on mid-April 2023, the company had a customer base of more than 100 plus customers, including corporate buyers who are manufacturers of food items derived from refined flour. The product portfolio of MDF includes maida, aata, chakki aata, choker, suji and daliya, catering to the demand of diverse customer base. The company sells its products under the brand name of "Anmol" which is an established name in the Nepalese market and provides competitive advantage to the company against new players entering the industry.

Stable demand outlook over medium term with wheat being amongst the major Nepalese diets

The demand prospect of wheat industry is likely to remain stable, notwithstanding the near-term supply constraint, as wheat products are considered one of major diets of Nepalese consumers. In addition, wheat products carry special traditional values in Nepal, and are used in preparing culturally valued foods especially during festive seasons. Due to availability of its products with varied packaging option ranging 1 kg to 50kgs, MDF has been able to attract household consumers, in addition to industrial buyers.

About the Company

Maa Durga Foods Private Limited (MDF) is a private limited company established in 2014 for processing of wheat for production of chakki aata, choker, maida, suji and other aligned products and has plant in Lipanibirta, Parsa, Nepal. The company has installed 2 plants with total installed capacity of 240 MTPD for maida plant and 80 MTPD for chakki aata plant.

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

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2020 (12m, A)	2021 (12m, A)	2022 (12m, A)
Income from Operations	797	985	1,082
PBILDT Margin (%)	14.69	10.79	8.99
Overall Gearing (times)	4.30	2.18	2.95
Interest Coverage (times)	1.45	1.44	1.10
Current Ratio (times)	1.21	1.29	1.11
Total Debt/ Gross Cash Accruals (times)	27.66	26.34	100.81

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	125.00	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Working Capital Loans/ Letter of Credit	975.00	CARE-NP A4 [A Four]
Total		1,100.00	

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About CARE Ratings Nepal Limited:

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