

## Narayani Modern Pulses Industries

### Ratings

Facilities	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	202.00 (Decreased from 204.00)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	1,633.50	CARE-NP A4+ [A Four Plus]	Reaffirmed
<b>Total Facilities</b>	<b>1,835.50</b> <b>(One Thousand Eight Hundred Thirty Five Million and Five Hundred Thousand Only)</b>		

*Details of instruments/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 Narayani Modern Pulses Industries (NMPI).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NMPI continue to remain constrained by its leveraged capital structure with modest debt servicing coverage indicators, working capital intensive nature of operations and partnership nature of constitution. The ratings also factor in susceptibility to price fluctuation of seasonal agro products, high reliance on import and foreign exchange fluctuation risk, and fragmented and competitive nature of industry coupled with exposure to volatile interest rate.

The ratings, however, derive strengths from the established track record of operations with experienced and resourceful promoters and locational advantage for import of raw materials. The ratings also take cognizance of moderate financial performance marked by steady profitability margins in FY22 (Audited, refers to the twelve-month period ended mid-July).

*Going forward, the ability of the firm to profitably scale up its operations, while rationalization of its borrowings through efficient management of its working capital requirements leading to improved solvency and coverage indicators will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

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

NMPI's capital structure remained leveraged, with overall gearing ratio of 5.98x at the end of FY22, albeit improved from 7.30x at the end of FY21 on account of increase in net worth of the firm aided by equity infusion coupled with accrual of profits. Similarly, debt service coverage indicators of NMPI also remain modest with total debt/ GCA of the firm remaining high at 63.31x and interest coverage ratio of 1.24x in FY22. A highly leveraged capital structure with low gearing headroom can limit the financial flexibility of a firm. Hence, rationalization of the debt levels will remain critical from credit perspective.

#### Working capital intensive nature of business with elongated net operating cycle

The operations of NMPI are working capital intensive with majority of purchases from foreign countries with short credit period. The company has to make high volume procurement of agro products through imports. Furthermore, due to seasonal nature of raw materials, NMPI has to keep enough inventory for smooth operations. NMPI's average inventory holding period remained at around 1.5 months at the end of FY22. However, average collection period remained high at 151 days at the end of FY22 amid ongoing liquidity stress in the market. Furthermore, amid a high collection period coupled with low creditors days, the net

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

operating cycle of the company was around seven months leading to reliance of the company on bank finance for the working capital needs.

### **Susceptibility to price fluctuation of seasonal agro products and its partnership nature of constitution**

NMPI 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 as production and prices depend upon various factors like area under production, yield for the year, demand-supply scenario and inventory carry forward of last year among others. Furthermore, the supply is dependent upon rainfall during the particular year as well as overall climatic condition, exposing the fate of the firm's operation to vagaries of nature.

NMPI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners which may affect financial flexibility of the firm. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth.

### **High reliance on import and foreign exchange fluctuation risk**

NMPI is mainly focused in importing from foreign countries and its business operations are majorly dependent on imports. The procurement to raw material cost stood 80-85% total purchases for last three financial years. The realization of sales is completely in the domestic currency. With initial cash outlay for procurement in foreign currency (USD) and sales realization in domestic currency, the firm is exposed to the fluctuation in exchange rates. Though the firm tries to pass on the price and currency volatility to the end users, any adverse fluctuations in the currency markets may put pressure on the profitability of the firm.

### **Fragmented and competitive nature of industry coupled with exposure to volatile interest rate**

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 NMPI'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.

Sustained requirement for short-term working capital borrowings results in a high interest expense for NMPI. The company's interest rates are based on 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. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rates, as seen over the last year or so, have added to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

### **Key Rating Strengths**

#### **Established track record of operations, part of a strong promoter group**

NMPI is part of Chachan Group which is one of the established business groups in Nepal. The group is promoted by Chachan family and currently is managed by the second and third generation of the family. The Group is involved in various businesses like cement manufacturing, edible oil refinery (Narayani Oil Refinery Udhyog Private Limited rated CARE-NP A3), import and trading of fertilizers, manufacturing of leather products. NMPI was established in 1994 and currently has two partners, Mr. Mohan Lal Agrawal and Mr. Shrawan Kumar Chachan; sharing profit and losses equally. Both the partners have more than 3 decades of experience in trading of pulses.

#### **Moderate financial performance marked by steady profitability margins**

NMPI generates its revenue from sales of various pulses as Maas Dal, Masoor Dal, Chana Dal, Moong Dal and Mater Dal among others. Although the company has managed pretty resilient profitability levels over the years with PBILDT margins of around 6-

7%, its total operating income (TOI) has been declining over FY21-FY22. NMPI's TOI declined by ~14% y-o-y basis to Rs 2,178 Mn in FY22, with sales impacted by restrictions in imports of certain products. Despite the decline in TOI, NMPI's PBILDT margin improved to 6.94% in FY22 from 5.96% in FY21. However, the company's PAT margin remained low below 1% during FY22 majorly due to increase in interest expense. During 8MFY23, the firm had achieved sales of Rs. 1,412 Mn. 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 on a sustained basis.

#### Locational advantage for import of raw materials with adequate storage capacity

NMPI's plant is located in Lipnimal, Bara district of Nepal. The raw materials are transported by road through Raxaul Border of India which is ~12kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border. This provides NMPI an advantage of procurement of raw material at lower transportation cost. Due to the close proximity with the major populous cities, NWPI also has huge locational advantages to dispense its products as per the proliferation in the market demand.

#### About the Company

Narayani Modern Pulses Industries (NMPI) is a partnership firm established in 1994 to process, import and export various kinds of Pulses and Grains. NMPI is registered with Department of Cottage and Small Scale Industries and has total capacity of 50,000 Metric Ton Per Annum (MTPA). NMPI deals in various kinds of pulses like Masoor Dall, Yellow Peas Dall, Green Mung Dall etc. NMPI caters to its customers through sales depot in Kathmandu, Pokhara, Itahari, Bhairahawa, Nepalgunj and Janakpur.

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

For the Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,238	2,552	2,178
PBILDT Margin (%)	7.42	5.96	6.94
Overall Gearing (times)	9.17	7.30	5.98
Interest Coverage (times)	1.18	1.61	1.24
Current Ratio (times)	1.06	1.08	1.22
Total Debt/ Gross Cash Accruals (times)	72.75	31.73	63.31

A: Audited

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	202.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	1,633.50	CARE-NP A4+
<b>Total Facilities</b>		<b>1,835.50</b>	

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