Annapurna Vegetable Products Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short-Term Bank Facilities	**4,100.00 (Decreased from 5,145.00)**	**CARE-NP A3 [A Three]**	**Reaffirmed**
Total Facilities	**4,100.00 (Four Thousand One Hundred Million Only)**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARENP A3' assigned to the short-term bank facilities of Annapurna Vegetable Products Private Limited (AVPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AVPL continues to derive strength from its long track record of operations with experienced promoters and management team and moderate financial risk profile of the company. The rating also factors in moderate operating cycle in FY22 (Audited, FY refers to the twelve-month period ending mid-July) and locational advantage of manufacturing facilities.

The rating, however, continues to remain constrained by its high exposure to raw material price volatility risk and foreign exchange fluctuation risk. The ratings also factor in susceptibility to price fluctuation of seasonal agro products, competitive nature of industry and exposure to volatile interest rates and regulatory risk, particularly as exports are mainly dependent on the duty arbitrage between India and Nepal.

Going forward, ability of AVPL to manage growth in the operations while maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities. Furthermore, ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will also be a key rating sensitivity. Also, any change in the regulatory framework pertaining to trade regulations and tariff differential with India materially impacting exports prospects will also be a key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Long track record of operations along with experienced promoters and management team

AVPL derives strength from its strong promoter group being part of the Sanghai Family. The family has presence in diversified business segments including banking, insurance, manufacturing, trading among others. The promoters of company have experience of over three decades in trading of imported and processed edible oils. AVPL is managed under the overall guidance of experienced businessmen/industrialist as Directors with wide experience in the food processing and trading sector.

Locational advantage for both imports and exports

The plant site is located in Lipanimal, Birgunj around 11 Kms from Indo-Nepal borders in Birgunj dry-port. Since all of the raw materials requirements of AVPL are imported from various countries followed by export prospects for the company, the proximity of processing unit of the company to the Indian border remains beneficial in terms of savings in freight cost.

Moderate financial risk profile, albeit decline expected in FY23 amid challenging operating environment

During FY22, total operating income (TOI) of the company increased by ~14% year-on-year to Rs. 12,653 Mn on account of improvement in overall average price realization. With prices of raw materials of the company mainly being crude oils,

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

dependent on prices in the international market, profitability of the company has been volatile over the period. The PBILDT margin of the company declined to 9.13% in FY22 from 13.11% in FY21 on account of increased input prices in international markets relative inability to pass through the increased input prices amid declined sales prospects mainly in H2FY22 coupled with intensified competition. Consequently, PAT margin declined to 6.51% during FY22 from 13.11% during FY21.

Exports to India continues to be impacted by reduced scope for arbitrage following the introduction of duty-free import scheme for soybean and sunflower crude by GoI in May 24, 2022 followed by lowering of import duty on import of palmolein to 5% from 7.5% in February 13, 2022 to help curb exorbitantly high oil prices in India. Until a positive revision in the import duty by GoI, exports prospects for AVPL remain slim, likely leading to decline in the company's income levels in FY23.

Furthermore, the overall financial risk profile of the company is expected to remain relatively stable with gearing levels and interest coverage remaining range bound, albeit likely with further moderation by FY23 end. However, any further negative deviation in the financial risk profile resulting from a prolonged decline in operating performance beyond FY23 will be critical from credit perspective and will remain a key monitorable aspect.

Moderate operating cycle of the company

AVPL is involved in processing of various crude edible oils into refined oil and vegetable ghee by importing raw materials being crude oil and rape seed. These raw materials are imported from South America, Malaysia, Indonesia, Ukraine, Canada, Australia and India which are procured through L/C. AVPL has to keep the inventory for smooth operations and extend credit to their customers, which lead to reliance on working capital limits. Sales is normally in cash in respect of export sales while AVPL allows 1.5 months credit period to its domestic customers, debtors turnover days was 32 days during FY22. The company keeps inventory for around a month and the inventory turnover was 28 days for the FY22. Further, the credit period allowed to the company during FY22 was at 5 days. Total operating cycle of the company remains steady at around 55 days in FY22.

Essential part of cooking leading to stable demand and steady growth in the revenue

The demand prospect of edible oil industry is stable as oil is one of essential commodity for cooking. Furthermore, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of edible as well as crude oil is being imported in Nepal giving importers like AVPL a favourable environment. Nepal has seen a steady growth in import of edible oil over the years.

Key Rating Weaknesses

Foreign exchange fluctuation risk

The company is mainly procuring raw materials (Crude soyabean, palmolien, sunflower oil) from foreign countries and its business operations are totally dependent on imports. Furthermore, the realization of sales is completely in the domestic currency or Indian rupee. With initial cash outlay for procurement in foreign currency (USD) and significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in exchange rates. Though the company 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 company.

Raw material price volatility risk

Industry profitability is mainly influenced by the volatility in input prices as raw-material cost forms about 98% of the total operating costs. The major raw materials are agro based commodities for AVPL which are imported from various countries for which prices are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins.

Prices of crude edible oils 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 and climatic condition, exposing the fate of the company's operation to vagaries of nature.

Competitive nature of industry

Import and processing/refining of edible oils is highly competitive due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of AVPL's product results in high competition from other players including traders. Considering the competitive nature of industry, the millers have low pricing power. Agro products are also seasonal in nature with production dependent on various factors such as monsoon and climatic condition, exposing the fate of the company's operation to vagaries of nature.

Exposure to regulatory risk

The operation of AVPL is vulnerable to regulatory risk arising from various laws and policies from importing and exporting countries coupled with the domestic policies of Nepal. The business of AVPL is primarily dependent on imported crude edible oil and exporting the same to India. Over past few years, there has been in regular/frequent changes in government policies, either domestic or international. Company's revenue is highly susceptible to regulatory policies relating to tariff barriers (differential trade tariffs among South Asian Free Trade Area (SAFTA)), non-tariffs barriers (restriction on the quality of imports), international freight rates etc. Any unfavorable change in policy could impact the financial profiles of entities operating in the importing of crude edible oil and exporting to India. Government of India has reduced custom duty multiple times on edible oil which might have negative impact on the edible oil refiners in Nepal and exporting to India.

Industry Outlook

Amid change in duty structure (lower/zero import duty) by Government of India (GoI) on imports of various crude edible oils, Nepalese refiners' income levels in FY23 are expected to drop substantially compared to the high growths reported over FY21-FY22 which was supported by surging exports to India of palmolein and soybean oil. Nepal's exports of edible oil to India has declined substantially compared to previous years. According to Department of Customs and the Trade and Export Promotion Center (TEPC), exports of edible oils to India from Nepal have declined by 68% year-on-year (y-o-y) in 11MFY23. Hence, refiners like AVPL are likely to remain impacted over the near term as export opportunities to India remain slim. However, refiners with a decent domestic presence are expected to fare better than the majorly export oriented player. AVPL's domestic sales of over Rs. 5,000 Mn sales annually is likely to support the earning profile of the company to some extent in the interim. Moreover, export opportunities to India are likely to resume sometime in the near future given the GoI, as in the past, looks to support local farmers who have relatively higher cost of production, with higher duty on import of crude edible oil.

Furthermore, upward revision in import duty of crude edible oils in India is more likely now that the edible oil prices have fallen back to a more manageable level compared to the substantial upswing in prices observed in the second half of FY22 amid supply-side constraints coupled with rising inflation, which was among the major reasons for the change in import duty regime in India by GoI. Although, upward revision in import duty of various crude edible oils in India, when that happens, is likely to again open opportunities for Nepalese refiners, this remains contingent upon the intermittent changes in related policies of GoI, resulting in a volatile income level for refiners like AVPL going forward as well.

About the Company

Annapurna Vegetable Products Private Limited (AVPL) is a private limited company established in 1988 for processing/refining of edible oils, having plant in Adarshnagar, Birgunj, Nepal. Currently, the total installed capacity for refined soyabean/palmolien/sunflower oil is 60,000 MTPA, for vegetable ghee is 7,000 MTPA and for mustard oil is 10,000 MTPA. AVPL sells these edible oils under 3 different brands viz. Amrit, Sunstar and Rani in the domestic market.

Financial performance

(Rs. In Million)

For the Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	6,974	11,079	12,653
PBILDT Margin (%)	11.66	13.11	9.13
Overall Gearing (times)	3.79	1.75	1.93
Interest Coverage (times)	7.57	24.61	12.32
Current Ratio (times)	1.24	1.36	1.28
Total Debt/ Gross Cash Accruals (times)	5.13	2.33	3.97

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit/ Non- Fund Based Limit	4,100.00	CARE-NP A3
Total Facilities		**4,100.00**	

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