

## Century Food Packaging & Processing Udhyog Private Limited

### Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.41	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	768.59	CARE-NP A3 [A Three]	Reaffirmed
<b>Total Facilities</b>	<b>770.00</b>		

*Details of Facilities/Instruments in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' assigned to the long-term bank facilities and 'CARE-NP A3' assigned to the short-term bank facilities of Century Food Packaging & Processing Udhyog Private Limited (CFPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of CFPL continue to derive strength from its established track record of operations along with experienced management team in the related field, steady financial performance of the company and moderate capital structure with adequate debt service coverage indicators in FY22 (Audited, FY refers to twelve-month period ending mid-July). The ratings also factor in CFPL's established marketing setup with locational advantage for raw materials and growing brand presence and stable demand of rice products being major Nepalese diet.

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

*Going forward, the ability of CFPL to manage growth in the operations while maintaining 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, along with experienced management team in the related field**

CFPL has an established track record of operations of over two decades in the rice trading business in Nepal. CFPL is currently managed under the overall guidance of Mr. Rajendra Prasad Agrawal, chairman, who has over four decades of experience in food trading industry. The management team is aptly supported by experienced professionals across various departments. Having a well-experienced leadership with strong and well-established networks for timely procurement of materials bodes well for the overall business prospects of the company.

#### **Established marketing setup and growing brand presence**

CFPL sells its products all over Nepal and has a base of more than 700 retailers spread across all major cities of the country. Furthermore, to support its marketing and sales, CFPL has offices and godowns located at Biratnagar and Kathmandu thereby facilitating procurement of raw material with favorable pricing terms and smooth distribution of its products. Furthermore, the packaging unit of CFPL is located nearby Indian border giving locational benefit for import of raw materials at lower transportation cost. CFPL sells its products under various registered brands, which have gained strong traction in the Nepalese market in a relatively short span as suggested by the growth in scale achieved by the company over FY20-FY22

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

wherein operating income had grown at a CAGR of 26%. A strong brand presence gives the company competitive advantage over new players entering the industry.

### **Steady financial performance in FY22**

Total operating income (TOI) of the company increased by 9% y-o-y to Rs. 1,757 Mn in FY22, majorly on account of increase in price realization. The quantity sold of the company moderated to 18,662 MT during FY22 from 21,337 MT during FY21 amid relatively low demand for premium rice amid surging prices. However, quantity sold has rebounded to 15,736 MT during 9MFY23 (Unaudited, refers to the nine-month period ended mid-April 2023). CFPL has achieved total operating income of Rs. 1,666 Mn during 9MFY23 supported by increase in quantity sold coupled with further increased price realization. It is expected to sustain the revenue growth momentum over the near-term, barring any major supply constraint in terms of imports from India.

During FY22, the company's PBILDT margin have normalized to its historical average of around 7%. 10.47% PBILDT margin in FY21 was mainly attributable to exceptional inventory gains. Nonetheless, the company's profitability remains slightly better vis-à-vis peers, leading to sustained cash accruals from operations.

### **Moderate capital structure with adequate coverage indicators**

Overall gearing ratio stood moderate at 1.35x as on mid-July 2022 improving from 1.68x as on mid-July 2021. Although the total debt of the company to Rs. 343 Mn in FY22 from Rs. 256 Mn in FY21, it was majorly offset by increase in net worth of the company boosted by infusion of equity share capital of Rs. 30 Mn in FY22 coupled with accretion of profits to reserve, resulting into improved gearing ratios. Similarly, interest coverage ratio of the company stood at 4.67x during FY22 (FY21: 5.04x). However, total debt/ GCA of the company deteriorated to 4.54x in FY22 as compared to 2.49x in FY21 on account of increase in working capital loans during the year end owing to increased scale of operations coupled with slightly moderated gross cash accruals.

### **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.

### **Key Rating Weaknesses**

#### **Working capital intensive nature of operations**

CFPL is involved in trading of rice by procuring the raw materials domestically and in the form of imports. Due to seasonal nature of raw materials, CFPL regularly needs to maintain stock for around a month for smooth operations. In addition, the company needs to extend credit to their customers, leading to reliance on working capital limits. CFPL generally allows up to three months of credit period to its customers. With average collection period of 80 days in FY22, average inventory days of 32 days and average credit period of 16 days, the total operating cycle of the company was 96 days in FY22, which remained steady at 91 days in FY21. The average utilization of fund-based working capital limit against sanctioned limit was around 70% during the twelve-month period ending mid-June, 2023.

#### **Susceptibility to price fluctuation of seasonal agro products and revenue concentration on single product**

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 depend upon various 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. The company is also exposed to revenue concentration risk as all of its revenues are from sale of a single product – rice, although of different varieties and under various brands.

### 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 CFPL's products results in high competition from other players, including traders. Considering the fragmented and competitive nature of industry, companies 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 rates

Given the elongated operating cycle of the company and increasing scale of operations, the company's requirement for borrowings to meet working capital has increased during FY22. 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. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

### About the Company

CFPL is a private limited company established in 2001 for trading of rice having packaging facility in Biratnagar, Nepal. CFPL deals in varieties of rice such as long grain rice, jeera rice, basmati rice and khudi rice, and sells them under various brands with major brands being Thakali, Mubarak, Sancho, Kohinoor, Subash Sahi and Jham Jham.

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

(Rs. Million)

For the year ended Mid-July	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,252	1,614	1,757
PBILDT Margin (%)	7.14	10.47	7.20
Overall Gearing (times)	3.89	1.68	1.35
Interest Coverage (times)	2.92	5.04	4.67
Total Debt/Gross Cash Accruals (times)	8.77	2.49	4.54
Current Ratio (times)	1.21	1.45	1.50

A: Audited

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1.41	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Working Capital Limits	767.29	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	1.30	CARE-NP A3
<b>Total</b>		<b>770.00</b>	

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