

## Janakpur Agro Farm Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,136.33	<b>CARE-NP B+ [Single B Plus]</b>	<b>Reaffirmed</b>
Short Term Bank Facilities	232.05 (Decreased from 253.67)	<b>CARE-NP A4 [A Four]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,368.38 (One Thousand Three Hundred Sixty Eight Million and Three Hundred Eighty Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Janakpur Agro Farm Limited (JAFL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JAFL continue to remain constrained by project implementation and stabilization risk associated with its under-construction poultry farm project. The ratings also take cognizance of the partial funding risk related to the proposed additional funding requirement. The ratings also factor in fragmented and competitive nature of industry, exposure to inherent risk in poultry sector and exposure to volatile interest rates. The ratings, however, continue to derive strength from experienced promoters and directors in the related field, stable demand outlook of poultry industry over the medium term and government support for agriculture based industry.

*Going forward, the ability of the company to timely execute the project within the projected commercial operation date (COD) avoiding further time or cost overrun will be the key rating sensitivities. Also, the ability of JAFL to scale up the operations and achieve profitability as envisaged would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Project implementation and stabilization risk

The company is setting up a green-field poultry farm along with organic fertilizer plant and CNG bio-gas plant at an estimated cost of Rs. 1,623 Mn which is being financed with debt of Rs. 1,136 Mn and equity of Rs. 487 Mn (debt equity ratio 70:30). The debt component has been fully tied up. However, amid time overrun leading to higher than earlier estimated interest during construction coupled with hiked machineries cost, the project is likely to incur cost overrun. Reassessment of updated cost and arrangement of additional funding is in progress. The project, thus, remains exposed to funding risk associated with the additional funding required as a result. Timely tie-up of the additional funding requirement remains crucial from credit standpoint.

As on mid-July, 2023, financial progress was around 75% of the initial estimated cost. Partial commercial operations is expected by August end 2023, with full fledged operations expected by FY25. Hence, the company continues to remain exposed to the residual risks associated with the ongoing project implementation and satisfactory operations thereafter.

#### Fragmented and competitive nature of industry

The poultry industry is highly competitive and fragmented with many regional unorganized players. Low capital intensity and low entry barrier facilitates easy entry of new players leading to increase in competition. Due to the stiff competitive, the pricing of poultry products remains volatile and also varies from place to place. Furthermore, inherent risk such as

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

perishable nature of product, constraints in transportation, cost of feeds, diseases affect poultry business. Besides this, ability to continuously maintain and improve product quality is key factor to sustain and capture market share in poultry sector.

#### **Vulnerability of the industry's performance to outbreaks of flu and other diseases**

JAFL will be involved in the sales of eggs, retired layers and fertilizers. Poultry business remains susceptible to inherent risk, such as diseases like Bird Flu which could impact sales of poultry feeds. Intermittent outbreaks of bird flu have affected exports since 2006. Such disease outbreaks affect poultry industry and movement of poultry products across the country. These avian flu outbreaks could lead to a drastic fall in demand followed by crash in poultry prices. Such scenario could pressurize the company's revenue flows as well as profitability.

#### **Exposure to volatile interest rate risk**

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. 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

#### **Key Rating Strengths**

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

JAFL is promoted by institutional promoter and individual promoters involved in diversified industries. JAFL has three board of directors chaired by Mr. Khuma Prasad Aryal. He is presently involved as Chairman in Gandaki Medical College and Teaching Hospital, Managing Director in Universal College of Medical Science and director in Nepalgunj Medical College. He is also director of Khilung Kalika Agro Farm Private Limited (KKPL) (CARE-NP B+/A4). Mr. Shovakanta Dhakal, managing director, has a long-standing experience in diversified sectors like banking, hotels, tourism, agriculture, poultry, renewable energy etc. He is also managing director of KKPL and chief executive officer of Om Agro Private Limited. KKPL is one of the promoter company that also deals in poultry eggs, meats and organic fertilizers. BOD is further supported by an experienced team across various functions/ departments.

##### **Stable demand outlook of poultry industry over the medium term**

The Nepalese poultry industry has seen increasing demand for production and productivity backed by increasing trend of consumer favoring white meat, increasing inflow of tourists and rapid urbanization, changing food habits of urban inhabitants and availability of poultry meats and eggs in all urban centers and even in small market areas. Poultry industry is relatively insulated from the economic cycle and given the current consumption trend, the demand for poultry products are likely to remain stable over the medium-term.

##### **Favourable government policies towards poultry industry**

Government of Nepal (GoN) has put restrictions on import of poultry items in Nepal from other countries as an initiative to protect domestic poultry sector and to attain self-sufficiency in the poultry sector. Since the industry remains susceptible to inherent risk, federal government has issued Bird Flu Control regulation, 2022 to carry out control mechanism to mitigate bird flu spread remaining in line with the Animal Health Livestock Services Act, 1998. The act will focus on standard mechanism accessing prior diagnosis of contamination and enforce strict restriction on transport of poultry products.

### About the Company

Janakpur Agro Farm Limited (JAFL) is incorporated on September 30, 2018 as a private limited company which later converted into public limited company on June 26, 2022. The company has been established to engage in poultry farming of layers and eggs; and manufacture organic fertilizer located in Dhanusha, Nepal. The company will have two grower sheds, each with capacity for 51,840 birds and five laying sheds, each with capacity for 100,800 birds. JAFL will also construct an organic fertilizer plant with installed capacity of 8,720 tons per annum and a biogas CNG plant having 800kW electricity generation capacity.

### 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 Loan	1,136.33	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limits	132.05	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	100.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,368.38</b>	

### Contact Us

#### Analyst Contact

Ms. Anusha Thapa  
+977-01-4012630  
[anusha.thapa@careratingsnepal.com](mailto:anusha.thapa@careratingsnepal.com)

Mr. Santosh Pudasaini  
+977-01-4012628  
[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

#### Relationship Contact

Mr. Achin Nirwani  
+977-9818832909  
[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

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