

Triveni Dal & Oil Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	29.67	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	590.33	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	620.00 (Six Hundred Twenty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB+' assigned to the long-term bank facilities and 'CARE-NP A4+' assigned to the short-term bank facilities of Triveni Dal & Oil Industries Private Limited (TDOI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TDOI continue to be constrained by its leveraged capital structure and moderate debt service coverage indicators and working capital intensive nature of business with elongated net operating cycle. The ratings also factor in fragmented and competitive nature of industry, susceptibility to price fluctuation of seasonal agro products, foreign exchange fluctuation risk coupled with exposure to volatile interest rates. The ratings, however, derive strengths from the established track record of operations along with strong promoters and experienced management team and moderate financial performance marked by steady growth in income with improved profitability margins in FY22 (Audited, FY refers to the twelve-month period ending mid-July). The ratings also take cognizance of locational advantage for import of raw materials and increasing demand outlook for TDOI's products over the medium term.

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 and modest debt service coverage indicators

TDOI's capital structure remains leveraged, with overall gearing ratio of 3.48x at the end of FY22 vis-à-vis 3.44x at the end of FY21 owing to high working capital utilization to fund the scale of business during FY22. Similarly, debt service coverage indicators of TDOI as indicated by interest coverage ratio stand modest at 1.56x in FY22, which declined from 1.89x in FY21 on account of higher interest rates during the year. Total Debt to GCA of the company, however, improved to 29.88x in FY22 compared to 40.22x in FY21 owing to improved cash accruals in FY22 supported by increased scale and improved profitability on a year-on-year basis. The ability of TDOI to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management remain crucial for the company to improve its financial risk profile.

Working capital intensive nature of business with elongated net operating cycle

The operations of the company are highly working capital intensive marked by an average operating cycle of 218 days for FY22, primarily on account of the high inventory holding. Being a trading and processing company, the company is required to maintain adequate inventory of material on account of high lead time for purchases and to ensure regular supply for uninterrupted processing operations. Furthermore, raw material of the company is also seasonal (being an agro community) for which the

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

company builds up raw material inventory to cater to the processing throughout the year resulting into high inventory holding of around 6 months in FY22. Similarly, the collection period of the company remains at 1.5 months, whereas the procurement of raw materials is generally done against advances resulting low creditors days. All this leads to highly working capital-intensive nature of operations leading to reliance on bank borrowings to meet working capital needs.

Susceptibility to price fluctuation of seasonal agro products

TDOI 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.

High reliance on import and foreign exchange fluctuation risk

TDOI's business operations are dependent on the imports as company's revenue is mainly driven by importing of raw material. Being significant purchases made in the form of imports (~70% in FY22), the company is exposed to unfavorable changes in the government policy towards imports and also from the exporting countries. With initial cash outlay for procurement in foreign currency (USD) and significant chunk of sales realization in domestic currency, the company's profitability margins are exposed to volatility in foreign exchange. 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

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 TDOI'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.

Exposure to volatile interest rate

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 and long track record of operations along with strong promoters and experienced management team

TDOI has an operational track record of over two and half decades and derives strength from its strong promoter group. Majority of shareholding (around 75%) is held by individuals belonging to the Sanghai family. The group has its presence in diversified business viz. banking, insurance, manufacturing, trading etc. The promoters of company have an experience of over two decades in trading of imported and processed pulses. The company is managed under the overall guidance of its two-member Board of Directors (BoD) who possesses wide experience in the related field. The company is chaired by Mr. Birendra Kumar Sanghai who is also involved in various business of the Group. The BoDs are supported by a team of qualified and experienced professionals to run the day-today operations of TDOI.

Locational advantage

The company's plant is located in Chattapipra, Bara district of Nepal. The raw materials are transported by rail from the Indian port to the Raxaul Boarder of India which is ~12 kms from the plant. Furthermore, plant site is located within ~11 kms from Birgunj dry port in Nepal-India Border which provides TDOI an advantage of supply of raw material at lower transportation cost.

Growing scale of operations and improved profitability margins in FY22

TDOI generates its revenue from sales of various varieties of pulses. The company reported growth in total operating income (TOI) by ~34% y-o-y to Rs. 1,938 Mn during FY22. Furthermore, PBILDT margin improved to 5.76% during FY22 from 4.47% in FY21 amid decline in cost of sales. However, the company's PAT margin remained low below 1% during FY22 majorly due to increase in interest expense to Rs. 72 Mn from Rs. 34 Mn in FY21. 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.

Stable demand outlook of the products

Demand of pulses has been rising in Nepal with pulses being part of staple food of Nepal. Further, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal giving importers like TDOI a favorable environment. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

About the Company

Triveni Dal & Oil Industries Pvt. Ltd. (TDOI) is a private limited company incorporated on March 10, 1995 to process, import and export various kinds of pulses & grains. TDOI is registered with Department of Cottage and Small Scale Industries and has total licensed capacity of 18,000 Metric Ton Per Annum.

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

For the Year ended Mid- July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,303	1,452	1,938
PBILDT Margin (%)	9.42	4.47	5.76
Overall Gearing (times)	2.52	3.44	3.48
Interest Coverage (times)	3.14	1.89	1.56
Current Ratio (times)	1.25	1.18	1.20
Total Debt/ Gross Cash Accruals (times)	10.17	40.42	29.88

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	29.67	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	240.33	CARE-NP A4+
Short Term Bank Facilities	Fund Based Limit/ Non-Fund Based Limit	350.00	CARE-NP A4+
Total Facilities		620.00	

Contact us**Analyst Contact**

Ms. Anusha Thapa

+977-01-4012630

anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012628

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.