Aashirbad Dal Mills Private Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**112.00**	**CARE-NP BB- [Double B Minus]**	**Reaffirmed**
Short Term Bank Facilities	**635.00**	**CARE-NP A4 [A Four]**	**Reaffirmed**
Total Facilities	**747.00 (Seven Hundred and Forty-Seven Million Only)**		

Details of 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 Aashirbad Dal Mills Private Limited (ADMPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ADMPL remain constrained by its below average financial risk profile marked by fluctuating scale of operations, leveraged capital structure with modest debt service coverage indicators, elongated operating cycle. The ratings also factor in the susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and the company's reliance on import and foreign exchange fluctuation risk on such imports.

The ratings, however, derive strength from established and adequate track record of operations coupled with experienced promoters in the related field, stable demand outlook of lentil products, and locational advantage.

Going forward, ability of the company to profitably scale up its operations, manage its working capital requirements to support the growth in operations while improving its capital structure would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile marked by fluctuating scale of operations, leveraged capital structure and modest debt service coverage indicators

Company's total operating income has been fluctuating over the past three years (FY21-FY23). TOI has registered a growth in FY22 and decline in FY23. The company's TOI declined by ~ 23% y-o-y to Rs. 893 Mn with sales impacted by restrictions in imports of certain products. The company's PBILDT margin, improved to 12.04% during FY23 vis-à-vis 7.23% in FY22, amid improved price realizations. PAT margin remained relatively muted at 1.01% during FY23 vis-à-vis 0.92% during FY22. ADMPL's capital structure stood highly leveraged with an overall gearing of 3.96x at the end of FY23 vis-à-vis 3.86x in FY22, majorly on account of high dependence on bank financing to meet its working capital requirements. Similarly, the company's debt service coverage indicators remain modest with interest coverage ratio of 1.22x in FY23, which declined from 1.42x in FY22 on account of higher interest rates during the year. Total debt/ Gross Cash Accruals (GCA) stood high at above 30x in the last two financial years (FY22-FY23). The rationalization of debt levels is critical from credit perspective, as a highly leveraged capital structure with less gearing headroom can limit the company's financial flexibility. 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 historical margin trend shows its ability to adequately pass through any such changes on a sustained basis.

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Working capital intensive nature of business with elongated net operating cycle

The operations of ADMPL are working capital intensive in nature due to long operating cycle. The company is involved in processing of varieties of lentil products by procuring raw materials majorly via import from countries like Australia, Canada, Tanzania and Myanmar, due to which the company needs to hold sufficient volume of inventory owing to long lead time of more than three months. This resulted in the average inventory days of ADMPL at 294 days in FY23 vis-à-vis 205 days in FY22. The company imports its raw materials via Letter of Credit, where payments are usually made at sight, whereas the company needs to provide reasonable credit to its customers, which are primarily wholesalers. The company's average collection period stood at 78 days in FY23 vis-à-vis 39 days in FY22, and average payable period stood at 28 days in FY23 vis-à-vis 41 days in FY22. Combining all, the company's net operating cycle stood elongated at 343 days in FY23, primarily on account of the high inventory holding, resulting in high reliance on bank finance for meeting its working capital needs. The average utilization of fund-based working capital limits was over 90% of the sanctioned limits during the twelve-month period ended in mid-August 2023.

Susceptibility to price fluctuation of seasonal agro products and foreign exchange fluctuation risk

ADMPL is engaged in import and processing of five varieties of lentil products primarily masoor dal, mas dal, rahar dal, chana dal, and moong dal. 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.

With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company's profitability margins are also 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.

Reliance on import, and fragmented and competitive nature of industry

ADMPL's business operations are dependent on the imports as domestic production is not sufficient to fulfill the demand. Purchases made in the form of imports (~ 34% in FY23) expose ADMPL to unfavorable changes in the government policy towards imports and also from the exporting countries.

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 ADMPL's product results in high competition from other players including traders as well. Considering the fragmented and competitive nature of industry, the millers have relatively low pricing power.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly. 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 changes in interest rate. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rate, 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 adequate track record of operations coupled with experienced promoters in the related field

ADMPL commenced its operations in 2016 and has around six years of track record in the agro industry. ADMPL along with its group associates, as Shivam Organization, is engaged in rice processing, pulse processing, cattle feed and poultry feed production, soya nugget production, import of spices, dry fruits and agro commodities. Mr. Shivajee Prasad Sah Kalwar, Chairman, is an active committee member of Birgunj Chamber of Commerce and has also led the Rice, Oil and Pulses Association of Birgunj in the past. He is also the chairman of Shivam Saving and Credit Co-operative Limited and promoter of Mahalaxmi Life Insurance Limited. Likewise, Mr. Pramod Kumar Shah, Managing Director, is also the managing director in Shivam Agro Industries Private Limited [CARE-NP BB/A4+] and an active director in various other companies within Shivam Organization. The board is aptly supported by an experienced management across various functions.

Locational advantage

The company's plant is located in Birgunj, Parsa district of Nepal. The plant site is located within 1 km from Birgunj dry port in Nepal-India Border which provides the company an advantage of supply of raw material at a relatively lower transportation cost than its competitors. While the company sells its products via wholesalers throughout Nepal, Kathmandu is its major market which is around 90 km from its plant site. Considering the central location of the plant site, ADMPL has an advantage in terms of transportation of its finished products throughout Nepal as well.

Stable demand outlook of lentil products

Demand of lentil products has been rising in Nepal with lentil being part of staple food of Nepalese population. Furthermore, with demand higher than domestic production and slowdown in domestic agriculture production, large volume of pulses is being imported in Nepal. Being a net importer of pulses, Nepal has seen a steady growth in import over the years.

About the Company

Aashirbad Dal Mills Private Limited (ADMPL) is a private limited company incorporated on August 9, 2016 for processing of dal (lentil) products with its manufacturing facility is located in Parsa, Birgunj, Nepal. The major operations of company involve import of unprocessed lentil, processing and selling under its registered brand 'Jagat'. The company has two processing units, namely Mas Mill with 35 Metric Tons Per Day (MTPD) for the processing of Moong Dal and Mas Dal, and Masoor Mill with installed capacity of 40 MTPD for the processing of Chana Dal, Masoor Dal and Rahar Dal, both of which came into operations from January, 2021.

Brief financials of the company for the past three years ended mid-July, 2023 is shown as follows:

For the year ended Mid-July	FY21 (Audited)	FY22 (Audited)	FY23 (Unaudited)
Income from Operations	828	1,155	893
PBILDT Margin (%)	7.33	7.23	12.04
Overall Gearing (times)	3.37	3.86	3.96
Interest Coverage (times)	1.44	1.42	1.22
Current Ratio (times)	1.45	1.33	1.33
Total Debt/Gross Cash Accruals (times)	29.94	32.64	39.49

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	112.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	135.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	500.00	CARE-NP A4
Total		**747.00**	

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