

Royal Rice Mill Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	370.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	230.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	600.00 [Six Hundred Million Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term facilities of Royal Rice Mill Private Limited (RRMPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RRMPL are constrained by the company's limited track record of operations along with inherent operations stabilization risk in the initial years of operations, leveraged capital structure with moderate debt service coverage indicators, working capital intensive nature of business leading to reliance on bank borrowings, price volatility risk of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates.

The ratings, however, derive strength from RRMPL's experienced promoters and management team in the related field, locational advantage for raw materials, and stable demand outlook for rice products over the medium-term with rice being a major Nepalese diet.

Going forward, the ability of the company to manage growth in operations while improving 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 Weaknesses

Short track record of operations with low profitability margins

RRMPL started its commercial operations in July 2022 and has a relatively short track record of operations as compared with other established players. During FY23 (FY refers to the twelve-month period ending mid-July), RRMPL generated total operating income of Rs. 1,379 Mn via sale of rice and its by-products, with a capacity utilization of ~65%.

The company's profitability margins have been on the lower side owing to the low value addition and intense market competition given the highly fragmented nature of the industry. This apart, interest burden on borrowing also restricts the net profitability of the company. For FY23, the company reported PBIDLT and PAT margins of 6.87% and 1.34% respectively. As the company has an operational track record of just over a year, its ability to sustain growth in operations while improving profit margins in line with competition remains to be seen.

Leveraged capital structure with modest debt service coverage indicators

The company had leveraged capital structure due to high dependence on external borrowing to meet its working capital requirements and debt taken for setting up the new manufacturing facilities. The capital structure of the company is leveraged as indicated by debt equity and overall gearing of 2.09x & 3.30x respectively at the end of FY23. RRMPL's interest coverage ratio was moderate at 1.68x in FY23 and the total debt/GCA of the company was relatively high at 14.68x during

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

FY23. The company's ability to rationalize debt levels leading to improved gearing headroom will be critical from credit perspective.

Elongated operating cycle resulting in working capital intensive nature of business

RRMPL is involved in processing of paddy into rice by procuring raw material domestically and importing from India. The operations of the company are working capital intensive in nature due to lengthy operating cycle, particularly owing to higher inventory holding period. With average collection period of 27 days, average inventory holding period of 100 days and average creditor period of 16 days, RRMPL's operating cycle stood at 111 days in FY23. Consequently, the average utilization of fund-based working capital against sanction limit was ~95% during the twelve months period ended mid-July 2023.

Susceptibility to price fluctuation of seasonal agro products

In Nepal, paddy is planted with onset of monsoon between June and August and harvested between September and November. The planting and production of the crop is dependent on timing and intensity of the monsoon. Furthermore, prices of rice are highly volatile 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 availability of seed, impacts of pests, monsoon during the particular year, as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

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 and capital requirement. Low product differentiation of RRMPL's product results in high competition from other players. Large-scale traders, millers and wholesalers dominate the rice supply chain. Considering the fragmented and competitive nature of industry, the millers have low pricing power. The pricing is market driven and Government of Nepal has not yet provided any minimum support pricing for the rice industry.

Exposure to volatile interest rates

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 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. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced promoter and management team

The company is managed under the overall guidance of its owner Mr. Pramil Neupane, a businessman with long experience in the food processing sector. Mr. Neupane and his family have been involved in the rice mill business for more than four decades. The group is having its presence in multiple industries and other group associates are Royal Washing and Dyeing Private Limited and Hotel Royal Banquet. Mr. Neupane is aptly supported by experienced management team across various departments.

Locational advantage for procurement of raw materials

The manufacturing facility of the company is located in Bharatpur, Chitwan district under Terai region which eases domestic procurement of raw materials due to its easy availability and favorable pricing terms. The facility is also relatively close to the Indian boarder. For procurement of the raw materials, which is in the form of imports and routes through Indian ports, the factory's proximity to the border remains a positive point leading to savings in freight cost.

Stable demand outlook with rice being a major Nepalese staple food

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.

About the Company

Royal Rice Mill Private Company (RRMPL) is a private limited company, incorporated on August 8, 2021 for processing of paddy into rice having a fully automated plant in Bharatpur, Chitwan, Nepal. It is promoted by individual promoter. RRMPL's products mostly include short grain rice and also long grain rice under different brand names such as 'Mustang', 'Kayara' and 'Nepal Gold' with packaging ranging from 5kg to 25kg. The total installed capacity of the plant is 8 Metric Tons Per Hour (MTPH).

Financial performance:

(Rs. In Million)

Particulars	FY22 (A)	FY23 (UA)
Income from Operations	30	1,379
PBILDT Margin (%)	10.36	6.87
Overall Gearing (times)	2.30	3.30
Interest coverage (times)	0.17	1.68
Total Debt / Gross Cash Accruals (times)	NEGATIVE	14.68
Current Ratio (times)	1.20	2.01

A: Audited, UA: Unaudited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	200.00	CARE-NP BB-
Long Term Bank Facilities	Permanent Working Capital	170.00	CARE-NP BB-
Short Term Bank Facilities	Working Capital	180.00	CARE-NP A4
Short Term Bank Facilities	Overdraft	50.00	CARE-NP A4
Total Facilities		600.00	

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About CARE Ratings:

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