PRESS RELEASE

SAURABH OIL & AGRO INDUSTRIES
July 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	350.00	IRN BB-	Assigned
Short Term Bank Facilities	1,750.00	IRN A4	Assigned
Total	**2,100.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 350.00 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,750.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Saurabh Oil & Agro Industries (SOAI) derives strength from SOAI's established and adequate track record of operation with experienced promoter group and management team especially in the food industry leading to a trusted brand recognition – "Dhara" in cooking oil segment and "Gyan" in Pulses segment. The ratings also take comfort from its plants proximity to Indian border, recent capacity expansion and stable demand for the edible oils in Nepalese households.

These rating strengths, however, are constrained by its weak financial profile characterized by high gearing and weak debt coverage indicators, limited product diversification and susceptibility of profitability to volatility in raw material price. Further, the ratings also take note on high import dependency leading to foreign exchange and supply concentration risk, intense market competition and exposure to regulatory risk. The company's ability to improve its sales and profit margins thereby improving its cash accruals and overall financial profile will remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Extensive industry experience of the promoter group and the management team

SOAI is promoted by KL Dugar Group, having strong presence across various industries like edible oil, food grains, packaging, hydropower, construction, bank & finance among others. The group along with its management team, has an experience of over 30 years in the edible oil industry, leading to a healthy relationship with suppliers and customers. Over the past decades, the company has established a strong market presence all over Nepal, and built a robust marketing, distribution network and a brand image. This has helped in sustained operating performance, amidst lockdown imposed due to Covid-19. Infomerics Nepal believes that extensive industry expertise of the promoters will continue supporting SOAI's business risk profile over the medium term.

Adequate track record albeit in a low base

SOAI is a Kohalpur based oil manufacturing industry, with the operational history of more than 3 decades. The company had recently in FY2020, expanded its assets base by acquiring one of its sister concern "Gyan Food Products" which deals in the production of various kinds of pulses. As a result, the operating revenue showed an increment of ~35% in FY20 and ~48% in FY21.

Established and trusted brand
SOAI is into production and processing of mustard oil and pulses along with other aligned products for more than 3 decades. The company sells mustard oil under the brand name of "Dhara", and pulses under the brand name of "Gyan", which is well-established and a most trusted brand especially in the mustard oil segment in Nepal. This has provided leverage to the company in terms of new players entering the industry.

Strategic location leading to savings in freight cost
The factory site is located in Kohalpur of Banke district, close to Indo-Nepal borders, which has led to saving in freight cost as the majority of raw materials requirements are imported from India. Further, SOAI has also been exporting its product to India and hence, factory's proximity to Indian border has eased the export as well.

Stable demand of edible oil in Nepal
The demand for mustard oil in Nepal is largely stable, as these are extensively used in cooking and other household purpose. Also, with the Government emphasizing on the need of the agriculture development, food ware house management, agriculture insurance awareness & support, are further expected to raise the perception among farmers and a trader, leading to a stable demand of mustard oil. Similarly, demand for the oil cakes also remains favorable, mainly supported by export to India for its high agricultural uses.

Key Rating Weaknesses

Financial profile characterized by high gearing level and debt coverage indicators
The financial profile of SOAI remains weak with low reserve base (negative but improving as of mid-July 2021); relatively high debt burden as reflected in the overall gearing of ~7.84x in FY21 (vis-à-vis 30.17x in FY20) mainly supported by the equity injection of ~NPR 110 Mn by the promoters in FY21, TD/EBDITA of 16.43x in FY21. Though these indicators are improving in FY21 compared to FY20, these are still high given low net worth base and high debt infusion. Nevertheless, these are expected to improve with an improvement in the reserves, going forward.

High reliance on imports of raw materials; exposure to forex and regulatory risk
SOAI imports ~80-90% oilseed requirement mostly from India, hence increase in reliance on import has led to supplier concentration risk. SOAI's top 10 supplier's controls ~74% of raw materials (in 11MFY22) supplies, leading to high risk of dependency on a particular supplier. Also, SOAI is vulnerable to supply chain bottlenecks and pricing volatility induced by global price fluctuation. The import duty on processed oil is subject to 15%, while mustard seeds import is subject to a 9-10% tariff. 50% exemption is provided on importation of mustard seeds, if imported by any edible oil producing industry. Hence, SOAI's overall profitability and financial profile may be impacted by any regulatory changes in custom duty resulting cheaper oil imports or expensive oilseed imports. Moreover, as a significant portion of the mustard cake is exported to the Indian market (~32% in FY21), SOAI also remains exposed to any changes in a trade regulation by Indian Government.

Limited product diversification
The sales of SOAI are majorly concentrated to mustard oil segment with ~67% in FY21 and 11MFY22. However, slightly moderated from ~80% in FY20, mainly because of the product diversification in recent years. In FY2020, SOAI expanded its assets base by ~NPR 144 Mn, by way of merger with "Gyan Food Products", resulting in the capacity expansion and product diversification to some extent.

Susceptibility of profitability to intense competition in the edible oil industry

The Nepalese edible oil industry is largely price sensitive, with players catering primarily to regional demand to avoid high marketing and distribution costs. ~41% of the sales are concentrated to the factory area leading to high geographic concentration risk. SOAI's lower absorption of marketing costs or inability to pass on raw material price increase is expected to exert pressure on operating margins of players.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
Established in July 1993, SOAI is a partnership firm, involved in processing of mustard oil and various kinds of pulses under the brand name "Dhara" and "Gyan". SOAI has its plant located at Kohalpur, Banke with an installed capacity of 10,500 MTPA for oil, 14,400 MTPA for various kinds of pulses and 9,800 MTPA for de-oiled cakes. SOAI is a part of KL Dugar Group, having a track record of more than three decades, across various sectors in Nepalese Industry.

Financial Indicators (Standalone)

For the year ended* As on	FY19	FY20	FY21
	Audited		
Total Operating Income (in NPR Mn.)	972	1,304	1,934
EBITDA Margin (%)	6.07	6.63	3.36
Interest Coverage Ratio (x)	0.93	1.19	1.49
Current Ratio (x)	1.13	1.33	1.17
Overall Gearing Ratio (x)	45.23	30.17	7.84

** Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	350.00	IRN BB-
Fund Based Bank Facilities- Overdraft/ Working Capital Loan	Short Term	1,740.00	IRN A4
Non Fund Based Bank Facilities	Short Term	10.00	IRN A4
Total Facilities		**2,100.00**	

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About Infomerics Credit Rating Nepal Limited:
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