

## PRESS RELEASE

### VIKAS FOOD PRODUCTS PRIVATE LIMITED

July 2022

#### Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	413.20	IRN BB+	Assigned
Short Term Bank Facilities	1,296.80	IRN A4+	Assigned
<b>Total</b>	<b>1,710.00</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB+ (Double B Plus) to the long term bank facilities of NPR 413.20 Mn and IRN A4+ (A Four Plus) to the short term bank facilities of NPR 1,296.80 Mn.

#### Detailed Rationale

The ratings assigned to the bank facilities of Vikas Food Products Private Limited (VFP) derive strength from its established and long track record of operation with experienced promoters and management personnel in food industry leading to a trusted brand recognition – “Gyan” and “Aashirbad”. The ratings also take comfort from its proximity to Indian border, moderate capacity utilization and support from a prominent corporate group. The ratings further factor moderate financial profile characterized by a stable demand with steady growth in sales and profitability during FY21<sup>1</sup>.

These rating strengths, however, are constrained by its leveraged capital structure, raw material price volatility risk, seasonal agro products in competitive industry, exposure to volatile interest rates and working capital intensive nature of business. Going forward, ability of the company to improve its operational profile while maintaining the profit margins and efficient working capital management will remain the key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

**Established and long track record of operation with experienced promoters and management personnel**  
VFP (Formerly Vikas Flour Mill Private Limited) has been in operation for more than 25 years in processing and manufacturing of wheat, rice, spices and different varieties of flour products. Further, VFP is a part of KL Dugar Group having strong presence in Nepal through their group entities in various industries like food grain, packaging, herbal extraction, hydropower, cement, construction and banking & finance. Mr. Naresh Dugar, Managing Director has over two decades of experience in trade and industry. He also holds directorship in various other group companies.

##### Proximity to Indian border and moderate capacity utilization

The plant site is close to Indo-Nepal borders which has led to saving in freight cost as the majority of raw materials requirements are imported from India. VFP capacity utilization is on moderate side with an average utilization of ~45% in last three years ending FY21. VFP has the total installed capacity of 81,376 MTPA.

##### Trusted brand recognition backed by established and prominent corporate group

<sup>1</sup> 12 months' period ending mid-July 2021

Through its affiliate company, KL Dugar Group supplies more than 180 product items of rice, pulses, cereal, baby food, spices, tea, flours, edible oil and other food grains in different packages, from its own sales depots. VFP sells its products under different brands viz. “Gyan” and “Aashirbad” with varied packaging option, in a varied quantity. Established brand image backed by the longstanding experience of promoters is further expected to reduce the impact of competition induced volatility in prices and maintain a significant presence in the Nepalese market with healthy turnover.

## **Moderate financial profile and stable demand of supplied products**

Total operating income (TOI) of the company increased by ~12% in FY20 to NPR 2,188 Mn. which further improved by ~1% to NPR 2,202 Mn in FY21, majorly on account of increase in mill/chakki atta segment along with a litto segment contributed by improvement in overall average price realization. Despite an increase in the overall average price realization, the company's EBIDTA margin has remained largely constant at ~6-7% over the past two years ending in FY21, primarily due to an increase in the trade sale of rice having low margin in overall contribution. Nonetheless, the supplied products are the staple diet of Nepalese cuisine; hence demand prospects remain largely stable.

## **Key Rating Weaknesses**

### **Raw material price volatility risk and exposure to regulatory risk**

The major raw materials for VFP are mostly imported from India. The raw material cost contributed ~80-85% of the TOI of the company and hence any fluctuation in the price is expected to impact the profitability of the company. Also, VFP is partially constrained by regulatory risk arising from various laws and policies from both Nepal and India. GoN<sup>2</sup> scrapped 25% VAT refund on sales of maida from FY19. Also, from FY20, sales of atta was brought into VAT bracket and advance tax holdings of 2.5% is levied on rice, maida and atta. Further, GoI<sup>3</sup> temporarily banned<sup>4</sup> the export of wheat with immediate citing an effort to control rising domestic prices in India. Hence, any unfavorable regulatory changes could impact the firm's profitability going forward.

### **Leveraged capital structure coupled with long working capital cycle**

The company's overall gearing ratio remain on the higher side given the high debt funded capex incurred in recent years and its high reliance on debt to finance its working capital requirements. The debt coverage indicators remained high with the overall gearing of ~8.69x in FY21 however improved from ~12.43x in FY20 and TOL/TNW at ~9.90x in FY21. Further, the operating cycle of VFP remain elevated with high inventory days of ~88 in FY21 (83 days for FY20), leading to high reliance on the bank loans for funding its working capital utilization.

### **Seasonal agro products in competitive industry**

Being an agricultural commodity, planting, production, and prices are highly influenced by the timing and intensity of the monsoon rain, as well as the area being produced, the yield for the year, the demand-supply situation, and inventory carryover from the previous year. Further, milling industry is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low capital requirement.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

<sup>2</sup> Government of Nepal

<sup>3</sup> Government of India

<sup>4</sup> On May 13, 2022, GoI banned the export of wheat, which however can be imported by obtaining government approval

## About the Company:

Vikas Flour Mill Private Limited (VFM) was incorporated on March 15, 1994 for processing and manufacturing of wheat products and different varieties of flour products. Later on July 09, 2020; Pratibha Rice Mill merged with VFM under the same promoter to create Vikas Food Products Private Limited (VFP). VFP started trading of different varieties of beans, spices, litto, processing of paddy into rice, value addition by ageing of purchased rice and production of beaten rice, puffed rice, different varieties of flour and wheat. Its plant is located in Dhamboji-01, Banke, Nepal. Currently, the total installed capacity for multigrain atta plant is 3,000 MTPA, for rice plant is 16,976 MTPA, for chakki atta plant is 25,000 MTPA, for flour mill plant is 32,400 MTPA and for litto plant is 4,000 MTPA. VFP is promoted by KL Dugar group, having more than three decades of operational track record across various sectors.

## Financial Indicators (Standalone)

For the year ended* As on	FY19	FY20	FY21
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	1,954	2,188	2,202
EBITDA Margin (%)	7.10	6.76	6.75
Interest Coverage Ratio (x)	1.26	1.25	1.71
Current Ratio (x)	1.14	1.29	1.23
Overall Gearing Ratio (x)	11.91	12.43	8.69

\* 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 (TL)	Long Term	413.20	IRN BB+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	950.00	IRN A4+
Non Fund Based Bank Facilities (Proposed)	Short Term	346.80	IRN A4+
<b>Total Facilities</b>		<b>1,710.00</b>	

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## About Infomerics Credit Rating Nepal Limited:

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