

PRESS RELEASE

SHREE KRISHNA ADHUNIK DAL UDHYOG PRIVATE LIMITED

November 2022

Rating

Facilities	Amount (NPR. Mn)	Rating	Rating Action
Short Term Bank Facilities	850.00	IRN A4	Assigned
Total	850.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned IRN A4 (A Four) to the short term bank facilities of NPR 850.00 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Shree Krishna Adhunik Dal Udhyog Private Limited (SKAD) derive strength from parentage of experienced promoter group “Shivam”, supported by proficient management team coupled with established and long track record of operation. Further, the rating also factors in the moderate financial risk profile, stable demand of supplied products and proximity to Indian border. These rating strengths are partially offset by the low capacity utilization level, elongated operating cycle, geographical concentration risk with seasonal agro products in competitive industry, raw material price volatility risk and foreign exchange fluctuation risk. Going forward, the ability of the company to manage growth in the operation and maintain its margins with prudent working capital management will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced promoter group supported by proficient management team coupled with established and long track record of operation

SKAD has been in operation for more than two decades especially in processing and manufacturing of different varieties of pulses. Further, SKAD is a part of Shivam Group (operation since 1978) and takes on the role of trading and manufacturing of pulses, spices, dry fruits, bitumen, road marker etc. They are the distributors of Lanka IOC for bitumen and Automark Industries India Pvt. Ltd. for road marking products. Mr. Pawan Kumar Saha is a sole director of the company and has over three decades of experience in different industry. Further, he is supported by the experienced management team leading to the better understanding of the market dynamics.

Moderate financial risk profile

The total operating income (TOI) of the company has increased by ~16% in FY21 to NPR 844 Mn. which has further improved to NPR 905 Mn in FY22, majorly on account of increase in average price realization. Also, the company's EBITDA margin reported during FY22 was 9.84% vis-à-vis 6.74% in FY21. The company was able to pass on the cost of production to its customers during FY22 resulting improvement in EBITDA margin. Overall gearing ratio of the company improved to 3.96x as on mid-July 2022 due to improvement in tangible net worth (TNW), upon plough back of profit into the business and addition of money in the form of equity. Interest coverage ratio remained moderate and stood at 1.44x in FY22.

Stable demand of supplied products and proximity to Indian border

SKAD sells its product mainly pulses under different brands viz. Puja, Mobile, Bal Bhadra and Kangaroo in a different range of packaging. 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. Also, the supplied products are the staple diet of Nepalese cuisine resulting a largely stable demand prospects. Additionally, the plant in a proximity to the custom point in Birgunj has led to saving in a freight cost, as the majority of raw materials requirements for SKAD are imported through Indian borders.

Key Rating Weaknesses

Low capacity utilization level

SKAD capacity utilization remain on the lower side with an average utilization of ~11% in last two financial years ended mid-July 2022. Nevertheless, improving with ~21% utilization as of mid-Oct 2023(annualized). SKAD's total installed capacity remains on the higher side at 30,000 MTPA.

Elongated operating cycle

The company imports its major raw material Masoor and various other pulses from different countries. The collection period for SKAD normally ranges from ~3-4 months and the average inventory period remains at ~5-7 months as most of the products are imported. The average creditor period generally remains on the lower side as import are mostly backed by Letter of Credit (LC). This has led to an elongated operating cycle of ~10-11 months during FY22 leading to high reliance on bank finance for the working capital needs. Accordingly, working capital intensity also stands at 80% in FY22 (81% in FY21).

Geographical concentration risk and seasonal agro products in competitive industry

The company primarily serves the regional market around its facilities in Birgunj city. Furthermore, the product 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, inventory availability and the demand-supply situation. Further, milling industry is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low capital requirement.

Raw material price volatility and foreign exchange fluctuation risk

The major raw materials for SKAD are mostly imported from different countries. The raw material cost contributed ~82-88% of the TOI of the company and hence any fluctuation in the price is expected to impact the profitability of the company. Also, as more than 50% of raw material requirements are met through import, the company remains exposed to the foreign exchange fluctuation risk as well.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in 2001 as a sole proprietor firm which later converted to private limited company as Shree Krishna Adhunik Dal Udhyog Pvt. Ltd (SKAD) on July 16, 2015. SKAD process and manufacture different varieties of pulses. Its plant is located in Gadimai-09, Bara, Nepal. The total installed capacity for pulses plant is 30,000 MTPA where products such as masoor dal, mass sano geda, bhap, chickpea and others are produced. It is a part of Shivam Group, managed by Mr. Pawan Kumar Saha.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	732	844	905
EBITDA Margin (%)	12.17	6.74	9.84
Interest Coverage Ratio (x)	1.38	1.28	1.44
Current Ratio (x)	1.22	1.20	1.12
Overall Gearing Ratio (x)	3.85	4.38	3.96

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities-Working Capital	Short Term	710.00	IRN A4
Non Fund Based Bank Facilities-LC	Short Term	140.00	IRN A4
Total Facilities		850.00	

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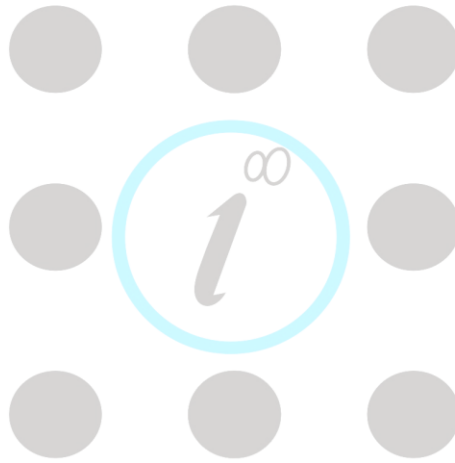
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