

PRESS RELEASE

RAKSHAM INTERNATIONAL PRIVATE LIMITED

November 2022

Rating

Instruments/ Facilities	Amount (NPR. Mn)	Rating	Rating Action
Short Term Bank Facilities	595.00	IRN A4	Assigned
Total	595.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 595 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Raksham International Private Limited (RIPL) derives strength from parentage of experienced promoter group “Shivam”, supported by a proficient management team leading to a better understanding of the market dynamics. The rating also factors in the group’s financial flexibility, diversified product offerings and stable demand for the food products in Nepal. These rating strengths, however, are partially offset by the limited track record of RIPL with a regular switch in product preferences thereby affecting the product/ business stability. The rating also factors in the volatility in prices, elongated operating cycle, susceptibility to product price fluctuation amidst competition and exposure to regulatory and foreign exchange regulation risk. Going forward, the ability of the company to maintain its product preferences and build up its revenue base while improving the margins and profitability 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

RIPL is part of Shivam Group and derives its strength from promoters having strong presence in Nepal through their group entities in 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. RIPL is led by Mr. Pawan Shah, Chairman, having over three decades of experience in different industries. Further, the promoters are supported by a team of technically qualified and experienced professionals, leading to a better understanding of the market dynamics, enabling a sound relationship with the suppliers and customers.

Diversified Product Portfolio; however, product switching remains a concern.

RIPL deals with various food products such as food grains, oilseeds, cattle feed, dry fruits along with construction materials. RIPL has been switching its preferences on these items based on market demand and margins on the products. RIPL imports these products and sources them locally as well. The ability of RIPL to scale up its revenue base while improving profit margins even when switching among the goods traded remains crucial.

Stable demand prospects for supplied products

RIPL deals in a wide range of products including construction materials, food grains (including pulses), dry fruits, seed oils, cattle feed and other miscellaneous items. Food grains and seed oils are highly demanded in the Nepalese market considering their integral role in Nepalese cuisine. Furthermore, the cattle feed is an important utility for farmers involved in livestock farming and construction materials plays a major role in overall development of Nepal, thereby supporting the demand stability.

Key Rating Weaknesses

Limited track record of operations

RIPL has an operational track record of less than a decade. The company has been involved in trading of dry fruits, food grains, oilseed, cattle feed, construction materials and other miscellaneous products. The company has been able to register a steady growth in revenue with steady margins since its establishment. Nevertheless, the company's ability to further scale up its operation while improving its margin remains to be seen.

Susceptibility to climatic condition and volatility in product prices

RIPL primarily trades in food products such as food grains, pulses, oilseeds, cattle feed. Among these products food grains and pulses are mostly imported while cattle feeds are purchased locally. With the improvement in the sales mix for cattle feed the import has drastically reduced to ~39% in FY22 vis-à-vis ~70% in FY21. The prices of these agro based food products are highly exposed to the whims of nature owing to various factors such as area under production, yield for the year, inventory available, demand supply scenario etc.

Large Working Capital Requirement

Trading industries are characterized by a highly working capital-intensive industry, as most of the funds are blocked in the inventories and receivables. The intensive nature of working capital operations of RIPL is reflected in operating cycle of 182 days as of mid-July 2022, mainly driven by the competitive nature of industry necessitating sufficient credit days allowed to the dealers along with adequate stock backup for smooth business operation. Moderation in collection period resulting in improvement in working capital efficiency will remain the key rating sensitivity factor.

Competitive and fragmented industry

With the presence of numerous organized and unorganized players, the food products trading industry are intensely competitive and fragmented. This along with low entry barrier and low product differentiation has limited the pricing flexibility and bargaining power thereby exposing the players like RIPL to an uncertain competitive risk.

Exposure to regulatory and forex risk

The revenue profile of RIPL is exposed to regulatory risk arising from various domestic as well as international laws and policies. Any restrictions or bans may largely impact on the revenue and profit margins of RIPL. The changing regulation has large impact on the profitability of the company. Also, for the company like RIPL, which are dependent on the imports and suppliers across the world, are highly exposed to the risk arising from the volatility in the foreign exchange market.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in September 2016, Raksham International (formerly Ratan Investment) is a private limited company established with the purpose of importing and trading of food products all over Nepal. The

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company's registered office is at Reshamkothi, Birgunj with a contact office in Sanepa, Lalitpur. RIPL is a family owned business chaired by Mr. Pawan Saha.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Provisional
Total Operating Income (in NPR Mn.)	417.80	1,015.69	844.91
EBITDA Margin (%)	8.96	9.34	7.54
Interest Coverage Ratio (x)	1.35	2.84	1.53
Current Ratio (x)	1.07	1.14	1.16
Overall Gearing Ratio (x)	12.82	6.10	3.22

* 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-Working Capital (WCL)	Short Term	595.00	IRN A4
Total Facilities		595.00	

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About Infomerics Credit Rating Nepal Limited:

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