PRESS RELEASE

SAURABH FOOD PRODUCTS PRIVATE LIMITED
December 2022

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	303.71	IRN B+	Assigned
Short Term Bank Facilities	1,910.74	IRN A4	Assigned
Total	**2,214.45**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (Single B Plus) to the long term bank facilities of NPR 303.71 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,910.74 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Saurabh Food Products Private Limited (SFPP) derive strength from parentage of experienced promoter group "KL Dugar" coupled with established and long track record, supported by proficient management team. Further, the ratings also factor proximity to Indian border, moderate capacity utilization, trusted brand recognition backed by established and prominent corporate group. These rating strengths are partially offset by below average financial risk profile, working capital intensive nature of business, raw material price volatility risk and exposure to regulatory risk. Going forward, the ability of the company to manage growth in the operation while improving its profit 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 coupled with established and long track record of operation of the company, supported by proficient management team

SFPP has been in operation for over two decades and is engaged in processing of paddy into rice, value addition by way of ageing of purchased rice, trading of lentils and soya chunks, production of mustard oil and mustard cake. Further, SFPP is a part of KL Dugar Group having strong presence in Nepal through their group entities in various industries like food grain, trading, hydropower, cement, construction and banking & finance. Mr. Kumud Dugar, Director, has over 25 years of experience in trade and industry. He also holds directorship in various other group companies and is supported by an experienced management team.

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. SFPP capacity utilization is on moderate side with an average utilization of ~72% in Rice segment and ~41% in Oil Segment in last three years ending FY22. Further, company was able to increase mustard oil production by more than a double in FY21 due to increase in demand of household consumption amid COVID. SFPP has the total installed capacity of 56,000 MTPA.

Trusted brand recognition backed by established and prominent corporate group

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. SFPP sales rice under the brand "Gyan"; Mustard oil under brand "Bigul" and "Gyan", 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.

Key Rating Weaknesses

Raw material price volatility risk and exposure to regulatory risk
The major raw materials for SFPP are imported from India and other countries. The raw material cost contributed ~82% of the total operating income (TOI) of the company and hence any fluctuation in the price is expected to impact the profitability of the company. Also, SFPP is partially constrained by regulatory risk arising from various laws and policies from both Nepal and India. From FY20, Government of Nepal has levied advance tax holdings of 2.5% on rice, maida & aata and also charges 9% import duty on wheat and paddy. Similarly, on 08 September 2022, Government of India imposed 20% export duty on rice in husk (HS 1006.10), husked rice (HS 1006.20), and semi-milled or wholly-milled rice (HS 1006.30), however, withdrawn on 31 October 2022. The exemption on export duty is now available for 600,000 metric tons (annual) of paddy only with the exports to be made via Raxaul, Jogbani, or Sunauli customs stations. Thus, any unfavorable regulatory changes could impact the financial risk profile.

Leveraged capital structure with elongated operating cycle
The company's overall gearing ratio remained on the higher side given the high reliance on debt to finance its working capital requirements. Overall gearing ratio (including LC payable) of the company remained very high at 71.94x at the end of FY22 deteriorated from 46.28x in FY21 mainly due to decrease in tangible net worth on account of negative profitability during FY22. Nonetheless, company was able to increase total operating income (TOI) by ~59% in FY21 and by ~24% in FY22; majorly on account of increase in overall price realization along with volume sales. Accordingly, the company's EBITDA margin had also improved in FY22 to 5.31% vis-à-vis 4.53% in FY21. However, with the increase in finance cost, the interest coverage ratio remained weak as reflected in 0.83x in FY22 deteriorated from 0.92x in FY21 and also the gross cash accruals declined by 72% in FY22 over FY21. Further, the operations of the company are working capital intensive in nature given the need of maintaining high inventory and low credit period allowed. This is evident from the working capital utilization of ~49% in FY22. Hence, the ability of SFPP to manage growth in the operations while improving the profit margins and rationalization of its debt through efficient working capital management would remain crucial.

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 in, 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

About the Company:
Incorporated in May 1999, Saurabh Food Products Private Limited (SFPP) is a private limited company established with an objective of manufacturing and trading of rice, edible oil and other food products. Its plant is located in Chhata Pipra-03, Bara, Nepal and has installed capacity of 42,000 MTPA in rice segment with crushing capacity of 14,000 MTPA in Mustard Oil. It is a part of KL Dugar Group promoted by Mr. Naresh Dugar and Mr. Kumud Dugar.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	1,123	1,766	2,183
EBITDA Margin (%)	10.70	4.53	5.31
Interest Coverage Ratio (x)	1.13	0.92	0.83
Current Ratio (x)	1.21	1.15	1.12
Overall Gearing Ratio (x)	Neg	46.28	71.94

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan (TL)	Long Term	303.71	IRN B+
Fund Based Bank Facilities-Working Capital	Short Term	1,050.00	IRN A4
Non Fund Based Bank Facilities-LC/BG	Short Term	860.00	IRN A4
Non Fund Based Bank Facilities-LC/BG (Proposed)	Short Term	0.74	IRN A4
Total Facilities		**2,214.45**	

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About Infomerics Credit Rating Nepal Limited:

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