PRESS RELEASE

GANAPATI VANASPATI PRIVATE LIMITED
February 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	362.00	IRN BB+	Assigned
Short Term Bank Facilities	7,650.84	IRN A4+	Assigned
Total	**8,012.84**		

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 362.00 Mn and the short term rating of IRN A4+ (A Four Plus) to the short term bank facilities of NPR 7,650.84 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Ganapati Vanaspati Private Limited (GVPL) derive strength from parentage of experienced promoter group "Lucky Group" coupled with established and long track record of operation supported by proficient management team. Further, the ratings also factor proximity to Indian border, moderate operational and financial profile coupled with moderate operating cycle and stable demand of supplied products. These rating strengths however are partially offset by customer & supplier's concentration risk, raw material price volatility risk, seasonal agro products in competitive industry, exposure to regulatory risk and foreign exchange fluctuation 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

Strategic location with sizeable exports to India

The factory site is located in Simara of Bara district, proximity to Indo-Nepal border, has led to saving in freight cost, as the majority of raw materials requirements are supplied through India. The vicinity to major ICP at Birgunj remains positive from the logistics perspective. Also, the factory's proximity to Indian border remains a positive with regard to export sales (~54% of total sales comprises export sales in FY22 which however was decreased to 26% in 5MFY23).

Moderate operational and financial profile

GVPL's operational profile remains moderate as reflected in the capacity utilization ~58% in last fours' years ending 5MFY23[1]. The total operating income (TOI) of the company has increased by ~44% in FY22 to NPR 12,338 Mn, mainly on account of improvement in total quantity sold in refined oil segment followed by improvement in overall average price realization of its products. This however has declined by ~19% (annualized) to NPR 4,144 Mn in 5MFY23, mainly on account of reduced export sales amidst import duty slashed by Government of India (GoI). Also, with the increase in cost of production, EBITDA margin has drastically declined to ~8.09% in FY22 from ~14.37% in FY21. The ability of GVPL to further scale up its operations while improving the profit margins would be the key rating sensitivity.

[1] Five-month period ended on Dec 15, 2022

Moderate capital structure coupled with moderate operating cycle

The company's overall gearing ratio has slightly improved to 2.20x at the end of FY22 compared to 2.75x at the end of FY21.This improvement was mainly due to reduced borrowing attributed to the import of raw materials. However, with a decrease in EBITDA, interest coverage ratio has also declined drastically. It still remained moderate at 4.18x in FY22 vis-à-vis 20.47x in FY21 with TOL/TNW of ~2.40x as of FY22. The operating cycle of GVPL remains moderate with inventory days of ~57 in FY22 (~67days for FY21). However, due to an increase in business volume, the average utilization of fund-based working capital limits against drawing power has also increased to ~93% during the last five quarters ended on October 31, 2022. This has led to high reliance on the bank loans to fund its working capital requirements.

Essential part of cooking, leading to stable demand

The oil industry is seeing a rise in demand, as it is an essential commodity for cooking. The company has experienced a compounded annual growth rate (CAGR) of about 35% over the past four years, ending in FY22. However, the company's edible oil business has been negatively affected by the reduction in import duty in India, leading to a significant drop of 31% (annualized)[2] in both crude and refined edible oil imports during the first six months of FY23 in comparison to FY22.

Key Rating Weaknesses

Raw material price volatility risk; exposure to regulatory risk and foreign exchange fluctuation risk

Crude edible oil is the major raw material for GVPL and is imported from various countries, with prices set periodically and are market linked. The cost of raw material constitutes ~80-85% of the company's TOI, and any price fluctuations are expected to impact the company's profitability. Furthermore, as the raw materials are imported in U.S. dollars, GVPL is exposed to foreign exchange risk. The company also faces regulatory risk due to various laws and policies from both Nepal and India. The Government of India has decreased the effective duty on crude edible oil imports, and the import duty[3] on refined soybean oil, refined sunflower and refined palm olien has also been reduced, with concessional custom duty extended until March 2023. However, any unfavorable regulatory changes could have a negative impact on the company's financial profile in future.

Seasonal agro products in competitive industry

Prices of edible crude oils are highly volatile in nature and being an agro products these are seasonal in nature with production and prices dependent on various factors like area under production, yield for the year, demand supply scenario and inventory carry forward of last year. Further, import and processing/refining of edible oils is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low capital requirement.

Supplier and customer concentration risk

During FY22, the top 10 customers accounted for approximately 71% of the company's TOI, while the top 10 suppliers provided 85% of the raw materials required. Such a high concentration of customers and suppliers poses a financial risk to the company if one of its key customers or suppliers experiences financial difficulties or discontinues their relationship with the company. Hence, the company's ability to diversify its customer and supplier concentration remains crucial.

Analytical Approach: Standalone

[2] Source: Nepal Foreign Trade Statistics, Department of Custom

[3] From October 2021; GoI reduced the effective duty on crude edible oil imports (palm oil, soybean oil and sunflower oil) to 5.5%, 8.25% earlier. Also, from December 2021; the effective import duty on refined soybean oil and refined sunflower oil has been reduced to 19.25% from 35.75% and the effective import duty on refined palm olien has been reduced to 13.75% from 19.25%.

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
Incorporated in June 1998, Ganapati Vanaspati (GVPL) is a private limited company established for processing of Vegetable Ghee, Refined Oils, Soap & Detergent, Sodium Silicate Jar, Tina, Preform & Pet bottles, Corrugated Box & By Products (Pina, PFAD/Acid Oil). Its plant is located in Pipara, Simara, Bara, Nepal and has installed capacity of 120,000 MTPA in refined edible oil segment (including crushing of Mustard Oil) and installed capacity of 12,300 MTPA in laundry soap segment. GVPL sells edible oils under four different brands viz. Safari, Safari Health, Chhakra & Ramdev and laundry soaps in two different brands viz Safari and Lucky. GVPL belongs to Lucky Group where Mr. Amit More, Mr. Rajiv More and Mr. Rishi Raj More are the major promoters.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	5,510	8,572	12,338
EBITDA Margin (%)	11.33	14.37	8.09
Interest Coverage Ratio (x)	7.48	20.09	4.12
Current Ratio (x)	1.24	1.15	1.10
Overall Gearing Ratio (x)	2.21	2.75	2.20

**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	362.00	IRN BB+
Fund Based Bank Facilities-Working Capital (WC)	Short Term	7,562.60	IRN A4+
Non Fund Based Bank Facilities-LC/BG (within WC)	Short Term	(7,392.60)	IRN A4+
Non Fund Based Bank Facilities-LC/BG (Proposed)	Short Term	88.24	IRN A4+
Total Facilities		**8,012.84**	

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About Infomerics Credit Rating Nepal Limited:
Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating

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