

PRESS RELEASE

NUTRI FOODS PRIVATE LIMITED

April 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	225.00	IRN BB+	Assigned
Short Term Bank Facilities	625.00	IRN A4+	Assigned
Total	850.00		

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 225 Mn and short term rating of IRN A4+ (A Four Plus) to the short term bank facilities of NPR 625 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Nutri Foods Private Limited (NFPL) derive strength from the company's established and long track record of operation, experienced promoters, and resourceful “Sharda Group”, as well as its proximity to the Indian border and moderate capacity utilization. The rating also takes into account the product diversification with stable demand for supplied products, improved financial profile, and moderate debt service coverage indicators. However, these rating strengths are partially offset by the risks of raw material price volatility and exposure to regulatory risk, as well as the highly intensive working capital cycle and customer concentration risk. Furthermore, the competitive industry in which the company operates and its seasonal agro products are additional challenges, despite the forward and backward integration with associate companies. Going forward, the ability of the company to improve its operational profile while maintaining profit margins and efficient working capital management will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established and long track record of operation with experienced promoters and resourceful group

NFPL (Formerly Pashupati Flour Mills Private Limited) has been in operation for more than 22 years in processing and manufacturing of different varieties of flour products including baby food products (Litto), lentils, cattle feed and trading of different crops. Also, NFPL is a part of Sharda Group having strong presence in Nepal through their group entities in various industries like food grain, cement, packaging, spirits, TMT bars, rubber, vehicle trading, mobile phone and its accessories. Mr. Shiv Ratna Sharda, Chairman has over four decades of experience in trade and industry. He also holds directorship in various other group companies. Further, BoD is supported by experienced and qualified 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. NFPL capacity utilization is on moderate side with an average utilization of ~32% last four years ending 8MFY23¹. NFPL has the total installed capacity of 150 MTPD² in flour segment, 30 MTPD in Litto segment and 24 MTPD in Lentils segment.

¹Mid-July 2022 to Mid-March 2023

²Metric Tonne Per Day

Improved financial profile and stable demand of supplied products

The total operating income (TOI) of the company increased by ~28% in FY22 to NPR 1,292 Mn. This further improved by ~35% (annualized) to NPR 1,165 Mn in 8MFY23, primarily due to an increase in the flour segment, which was further contributed to by an increase in overall average price realization. As a result, the EBITDA margin improved to 7.21% in FY22. The primary cause of the decline in operating profitability during FY21 was the increase in import duty by the GoN³ from 5% to 9% on wheat (the key raw material), which made the company's raw material costs more expensive, and the company was unable to pass on the cost to customers. The interest coverage ratio of the company improved to 2.30x in FY22 from 1.37x in FY21. However, due to increased operations and investments in equity shares during FY22, the overall gearing ratio and total debt/gross cash accruals deteriorated in FY22 compared to FY21. Nonetheless, as the supplied products are the staple diet of Nepalese cuisine, demand prospects remain largely stable.

Key Rating Weaknesses

Raw material price volatility risk and exposure to regulatory risk

The raw material cost contributed ~75% of the TOI of the company and hence, any fluctuation in the price is expected to impact the profitability of the company. Also, NFPL is partially constrained by regulatory risk arising from various laws and policies from both Nepal and India. GoN 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, GoI⁴ temporarily banned⁵ the export of wheat citing an effort to control rising domestic prices in India amid Russian-Ukraine war (Ukraine- a major wheat exporter). Hence, any unfavorable regulatory changes could impact the firm's profitability going forward.

Highly intensive working capital cycle

The operations of the company are working capital intensive in nature. NFPL is involved in processing of wheat and lentils into various other edible items by procuring raw material both locally and by importing from India and other countries. Due to seasonal nature of raw materials, NFPL maintains stock for around 3-5 months for smooth operations. Also, NFPL allows credit period to its customers with very low credit period from its suppliers. This has led to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against drawing power was ~95% during 7MFY23.

Customer concentration risk

Company faces customer concentration risk as the top 10 customers contribute ~66% of total sales during 8MFY23. However, sales made to associate companies during the last four years ending 8MFY23 accounted for 22-31%, indicating support from the company's group companies. Additionally, 14% of the total raw material purchases were made from its associate company, indicating support from its group in terms of backward integration.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

³Government of Nepal

⁴Government of India

⁵On May 13, 2022, GoI banned the export of wheat. However, Ministry of Industry, Commerce and Supplies sent a letter to GOI in April 2023 through the Ministry of Foreign Affairs, requesting a consignment of 300,000 tonnes of wheat.

Pashupati Flour Mills was incorporated on September 27, 2001 as a partnership firm with Mr. Shri Niwas Sharda and Mr. Anupam Rathi as partners, and later converted to Pashupati Flour Mills Pvt. Ltd. (PFMP) on December 03, 2004. On July 16, 2006, PFMP was renamed to Nutri Foods Pvt. Ltd. (NFPL). Its plant is located in Duhabi-02, Sunsari, Nepal. NFPL is a HACCP, ISO 22000:2018 and GMP certified unit. NFPL deals its products under the brand name of “SUPERMAN”, “FORTUNE” and “ANCHOR” and baby food product under the brand name of “NUTRILAC” all over Nepal.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	1,441	985	1,292
EBITDA Margin (%)	6.43	3.17	7.21
Interest Coverage Ratio (x)	2.57	1.37	2.30
Current Ratio (x)	1.56	1.27	1.17
Overall Gearing Ratio (x)	0.75	1.36	1.85

* 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- Proposed Permanent WCL	Long Term	155.00	IRN BB+
Fund Based Bank Facilities- Proposed Term Loan	Long Term	70.00	IRN BB+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	595.00	IRN A4+
Non Fund Based Bank Facilities-Letter of Credit (LC)	Short Term	30.00	IRN A4+
Non Fund Based Bank Facilities-LC/PBG/BG	Short Term	(120.80)	IRN A4+
Total Facilities		850.00	

PBG= Performance Bank Guarantee and BG= Bank Guarantee

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About Infomerics Credit Rating Nepal Limited:

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