PRESS RELEASE

Dumkibas Poultry Farm Private Limited

May 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	480.25	IRN B+	Assigned
Short Term Bank Facilities	150.00	IRN A4	Assigned
Long Term/Short Term Bank Facilities	69.75	IRN B+/A4	Assigned
TOTAL	**700.00**		

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 480.25 Mn, the short-term rating of IRN A4 (A Four) to the short-term bank facilities of NPR 150.00 Mn and IRN B+ (Single B plus) /A4 (A Four) to the long term/short term bank facilities of NPR 69.75 Mn.

Detailed Rationale

The ratings assigned are mainly constrained by Dumkibas Poultry Farm Private Limited's (DPFPL) modest financial and liquidity profile, characterized by high leverage levels. The ratings also factor in the price volatility risk, inherent risk of disease outbreaks in the poultry business and interest rate volatility risk.

Nonetheless, the ratings factor in the good scale-up in revenues in the initial years of operations (albeit on a low base) with relatively better operating margins at ~10%. Hence, the experienced background of the promoters and management team along with an established sales channel is expected to support the company's revenue performance over the medium term. Going forward, the company's ability to continue its sales momentum while sustaining its margins and implementing prudent working capital management practices and hence maintaining comfortable capitalisation/coverage indicators would remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Significant revenue growth over initial years of operation

DPFPL has demonstrated remarkable revenue growth in its initial years of operation (albeit on low base). The Total Operating Income (TOI) surged by ~56% in FY22 (NPR 652 Mn) and an impressive ~45% in FY23 (NPR 944 Mn). The company has been able to maintain EBITDA margin above 10% in last 3 FYs (FY21-FY23). This growth was primarily attributed to cost-saving measures, particularly in the procurement of raw materials. Overall, these developments have strengthened DPFPL's financial profile and positioned the company for sustained growth in the near future.

Raw material procurement

All raw materials are sourced from the Nepalese market, ensuring both cost-effectiveness and quality control. The primary raw material, feed, is supplied by Nepal Wellhope Agri-Tech Pvt. Ltd., located in Chitwan district. Mr. Vaidya, a significant stakeholder with a 50% share in this feed company, provides a strategic advantage in terms of feed quality, directly influencing egg production. The secondary raw material, chicks of the BOVANS BROWN breed, is procured from Vizu Poultry Farm, another enterprise fully funded by Mr. Vaidya, ensuring reliable quality and production standards.

Key Rating Weaknesses

Modest financial profile
Given the huge term-debt obligations in its initial years, along with sizeable reliance on working capital borrowings, the company's gearing levels remained high at 5.48x as of mid-January 2024, along with a fairly high Total Debt to EBITDA of 15.6x, leading to a modest capitalisation profile. Coverage indicators have also remained moderate till H1FY24, with DSCR of 1.67x and interest coverage ratio of 1.71x.

Price volatility risk
The major raw materials for DPFPL are mostly locally procured. The raw material cost contributed ~ 80% of the TOI of the company and hence any fluctuation in the price is expected to impact the profitability of the company. Similarly, sales price of egg is highly volatile depending upon market demand which can affect in its profit margin.

Inherent risk of disease outbreaks in the poultry business
Overall poultry industry, is exposed to the inherent industry risk of disease outbreaks like bird flu (H5N1 influenza virus). Avian influenza with high pathogenic value can have a severe effect in the business of the overall industry including that of DPFPL.

No major entry barriers lead to highly competitive intensity of the industry:
There are no any major entry barriers for the poultry industry in the country due to which there are risks of new entrants in the already competitive segment. Also, the competitive intensity can be felt from the various regional organized and unorganized players.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
Incorporated in February 2018, Dumkibas Poultry Farm Private Limited (DPFPL) is producers of high-quality eggs in Nepal, operating under the brand name "Vizu Brown Eggs". With its corporate office in Kathmandu and farm in Nawalparasi, DPFPL produces 300,000 fresh eggs daily from its 500,000 birds housed in closed facilities. 100% ownership of all shares lies with individual promoter, namely Mr. Suresh Vaidya.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	H1FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	417	652	944	497
EBITDA Margin (%)	12.83	14.13	10.98	10.28
Interest Coverage Ratio (x)	2.58	4.02	1.52	1.71
Current Ratio (x)	0.36	0.63	1.36	1.11
Total Debt/GCA (years)	12.99	7.79	22.65	38.22
DSCR (x)	2.73	3.54	1.51	1.67
Overall Gearing Ratio (x)	3.80	3.57	5.59	5.48

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Long Term Bank Facilities- Term Loan	Term Loan	436.70	IRN B+
Long Term Bank Facilities- Proposed Term Loan	Term Loan	43.55	IRN B+
Short Term Loan Facilities- Cash Credit Loan	Short Term	150.00	IRN A4
Long Term/Short Term Facilities- Letter of Credit	Long Term/Short Term	69.75	IRN B+/A4
Total Facilities		**700.00**	

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About Infomerics Credit Rating Nepal Limited:
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by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.