

PRESS RELEASE

Sagarmatha Agro Trading Private Limited

May 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Short Term Bank Facilities	1,175.00	IRN A4+	Assigned
TOTAL	1,175.00		

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 Plus) to the short-term bank facilities of NPR 1,175.00 Mn.

Detailed Rationale

The rating assigned to Sagarmatha Agro Trading Private Limited (SATPL) derives comfort from its established track record of operations along with steady financial performance of the company characterized by growth in total operating income. The rating also factors experienced promoters in the related field, established brands with diversified distribution network and locational advantage. The assigned rating factors in good and stable demand outlook for rice, which is the major product line for SATPL.

However, the rating strengths are partially offset by the recent spike in the company's working capital intensity to ~59% in H1FY24 (~26% in FY23) owing to economic slowdown and liquidity crunch in market. Rating concerns also arise from the company's leveraged capital structure, susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry, and exposure to volatile interest rates and import duties. Going forward, the company's ability to attain adequate revenue and margins, manage its working capital levels and improve the capitalisation/coverage indicators would remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Moderate financial profile and debt service coverage indicators

Over the last five FYs (FY19-FY23), SATPL has demonstrated an impressive upward trend in its Total Operating Income (TOI), exhibiting a notable compound annual growth rate of ~32% with slight moderation of ~7% in FY23 (NPR 4,514 in FY23), majorly on account of increase in overall average price realization. Also, the company's EBIDTA margin has improved to ~6.07% in H1FY24 (~4.81% in FY23) due to decrease in raw materials price. Overall gearing ratio of the company improved to 2.15x in H1FY24 (2.59x in FY23) due to improvement of tangible net worth (TNW). Interest coverage ratio remained moderate and stood at 2.83x in H1FY24 (2.15x in FY23) and DSCR at 2.38x in H1FY24 (1.84x in FY23).

Established brand recognition and market presence across the country

SATPL sells products under a single brand name all over Nepal. The company's well-established brand maintains consistent demand and aids in product differentiation from competitors. This has helped to reduce the impact of competition induced volatility in prices and maintain a significant presence in the Nepalese market with healthy turnover. Further, SATPL expects to sell its products across the country and the sales are majorly through a direct channel.

Proximity to Indian border leading to savings in freight cost

The factory 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.

Key Rating Weaknesses

Working capital intensive nature of operations

SATPL is involved in trading of rice by procuring the raw materials domestically and in the form of imports. Due to seasonal nature of raw materials, SATPL regularly needs to maintain stock for smooth operations. During H1FY24, SATPL experienced a substantial increase in its working capital intensity, soaring to ~59% from ~26% in FY23. This rise can be attributed to modest sales combined with a significant increase in inventory days, which expanded from 17 days as of mid-July 2023 to 30 days as of mid-January 2024. Moreover, the average collection period extended from 39 days as of mid-July 2022 to 60 days as of mid-July 2023 (75 days as of mid-January 2024). These trends have negatively impacted the company's operating cash flows, leading to increased reliance on debt to meet operational needs, consequently straining liquidity.

Product concentration risk

The product-wise sales from FY21 to the H1FY24 highlights shifting market trends across various categories. Distinctively, Rice has consistently maintained its dominance, albeit with a gradual decline in market share from ~98% in FY21 to ~95% in H1FY24, accompanied by fluctuating value. Maize, Non-Basmati Paddy, and Soy Dc exhibited varying degrees of market presence, with Maize experiencing a significant decrease in share over the observed period. Lentils emerged as a considerable contributor, displaying a steady increase in market share in last two fiscal years (~3% in FY23). Conversely, products such as Soya Dc, Soyabean, and Wheat maintained minimal market share throughout the analyzed timeframe. This underscores the sustained focus on Rice as the primary revenue driver while also highlighting emerging opportunities in other product categories.

Susceptibility to price fluctuation of seasonal agro products

The susceptibility to price fluctuation of seasonal agro products, such as Paddy, poses significant challenges for the company's operations. Paddy cultivation is intricately linked to the timing and intensity of the monsoon, impacting both planting and harvesting cycles. Moreover, the volatility of rice prices adds another layer of uncertainty, influenced by variables like production levels, demand-supply dynamics, and inventory carryover from previous years. Factors including area under cultivation, yield variations, and the impact of pests further contribute to price instability. Additionally, the overall climatic conditions during the year play a crucial role in determining supply, exposing the company's operations to the unpredictable nature of agricultural outcomes.

Fragmented and competitive nature of industry

The rice trading industry exhibits a high level of fragmentation, attributed to the presence of numerous organized and unorganized players, facilitated by low entry barriers and minimal technology and capital requirements. SATPL faces intense competition from various stakeholders, including large-scale collectors, millers, traders, and wholesalers, due to the low differentiation of its products. In such a competitive landscape, small and medium-sized traders have limited pricing power over their products. Pricing is primarily dictated by market dynamics, and any market price below SATPL's procurement cost of rice from India directly impacts the company's profitability, highlighting the vulnerability of its operations to market fluctuations.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in May 2012, Sagarmatha Agro Trading Private Limited (SATPL) is a private limited company, specializing in the trading of rice and various other agro products like wheat, millet, maize, and paddy, catering to market demands. Operating primarily in Nepal, SATPL imports its goods from India and distributes them under its registered brand names such as Ripuraj, Makhankhor, Jai Ho, Munnasahi, Newari, Muskan, Jimbu, Bhoj Special, and Royal Tasty. The company's headquarters is located in Birgunj, Parsa, with branch offices in Kathmandu, Bhairahwa, and Pokhara, all equipped with godown. Ownership of all shares lies with individual promoters, namely Mr. Shyam Sundar Roongta (37%), Mr. Umesh Kumar Agrawal (37%), Mr. Abhisekh Agrawal (12.5%), Mr. Uttkarsha Agrawal (12.5%) and Mrs. Sabita Devi Roongta (1%).

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	H1FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	2,978	4,832	4,514	2,046
EBITDA Margin (%)	2.68	3.20	4.81	6.07
Interest Coverage Ratio (x)	2.82	2.00	2.15	2.83
Current Ratio (x)	1.29	1.25	1.38	1.40
Total Debt/GCA (years)	11.98	12.34	10.31	14.52
DSCR (x)	2.37	1.72	1.84	2.38
Overall Gearing Ratio (x)	2.18	2.69	2.59	2.15

Earnings before Interest Tax Depreciation Amortization (EBITDA)

Debt Service Coverage Ratio (DSCR)

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Short Term Bank Facilities- Short Term/Cash Credit Loan	Short Term	1,174.70	IRN A4+
Short Term Loan Facilities- PBG ¹	Short Term	0.30	IRN A4+
Total Facilities		1,175.00	

¹ Performance Bank Guarantee

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Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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