PRESS RELEASE

R.M.C. FOODS PRIVATE LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	793.00 (enhanced from 700.00)	IRN B+	Downgraded from IRN BB-
Short Term Bank Facilities	4,740.00 (enhanced from 2,700.00)	IRN A4	Reaffirmed
TOTAL	**5,533.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the rating assigned to the long-term facilities of NPR 793.00 Mn to IRN B+ (Single B Plus) from IRN BB- (Double B Minus) and reaffirmed the rating of IRN A4 (A Four) assigned to the short-term facilities of NPR 4,740.00 Mn.

Detailed Rationale

The downgrade of rating assigned to the bank facilities of R.M.C. Foods Private Limited (RFPL) is primarily due to operational losses incurred by the company and modest debt coverage indicators in FY23 and working capital intensive nature of business. Furthermore, the rating also factors in the raw material price volatility risk associated with the seasonal agro product, exposure to foreign exchange fluctuation risk and regulatory risk.

These rating weaknesses are partially offset by the strength derived from proximity of the plant to Indian border and consistent demand outlook in domestic market. Going forward, the ability of the company to scale up the operations while improving the profitability margins and rationalization of its debt through efficient working capital management leading to improvement in coverage indicators would remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strategic Locational Advantage

RFPL's manufacturing plant, strategically located in Jeetpur of Bara District, offers substantial logistical advantages. Situated just ~30 kms from the Indian border at Birgunj, this location provides convenient access for importing raw materials and exporting finished products to both India and other international markets. This proximity to a major border crossing streamlines cross-border logistics, supporting efficient supply chain operations. Furthermore, being centrally positioned within Nepal, the plant enjoys equal accessibility to various regions across the country. This geographic advantage not only facilitates smooth distribution of RFPL's products nationwide but also strengthens the company's ability to meet diverse market demands effectively. The strategic location thus plays a pivotal role in enhancing RFPL's operational efficiency and market competitiveness.

Consistent demand outlook in domestic market

Nepal has seen a consistent upward trend in the importation of crude oil and oil seeds over the past decade, reflecting a robust and growing demand for edible oil across the nation. This increasing demand is primarily driven by rapid urbanization and the relatively slow pace of domestic oilseed production. As a result, there is a significant opportunity and a positive demand outlook for domestic millers like RFPL, who are well-positioned to capitalize on the market's needs.

Key Rating Weaknesses

Modest financial risk profile
RFPL generates its revenue from sales of refined sunflower/ soyabean/palm oil and vegetable ghee. Total operating income of the company stood at NPR 4,133 Mn in FY23, which is a first full year of operation. The company incurred operational losses in FY23 on account of high raw materials prices, which are primarily edible crude oils, price of which is dependent on the global market. Consequently, the company incurred net losses and also the Gross Cash Accruals (GCA) stood negative in FY23. Promoters of the company had infused share capital of NPR 900 Mn in FY23. RFPL had availed loan of NPR 1,610 Mn by the end of Mid-July, 2023. Overall gearing ratio of RFPL stood at 2.37x as of mid-July 2023 with negative total debt/ GCA and interest coverage ratio. The ability of RFPL to scale up operations while improving the profitability margins will remain a key monitorable.

Working capital intensive nature of business
The operations of the company are working capital intensive in nature. RFPL is involved in processing of various refined oil and vegetable ghee by importing raw materials being edible crude oil and rapeseed. These raw materials are imported from Switzerland, Singapore and Netherlands which are procured through LC at usance (maximum 180 days). RFPL has to keep the inventory for smooth operations and extend credit to their customers, which led to high reliance on working capital limits. Export sales are made in cash and credit period of 30 days are given in domestic sales which are backed by bank guarantee or Post Dated Cheque (PDC), debtors' turnover days was 60 days during FY23. Average Raw Materials (Edible crude oil) holding period was 16 days and average inventory period was 22 days for FY23 including materials in transit. Combining all, total operating cycle of the company stood high at 72 days in FY23 which had led to high reliance of the company on the bank finance for working capital needs. The utilization of working capital limits stood high at ~80%-90% as of Mid-June, 2024.

Raw material price volatility risk; exposure to regulatory risk and foreign exchange fluctuation risk
The major raw materials for RFPL being crude edible oil are imported from various countries for which prices are market linked and set on a periodic basis. The raw material cost contributes substantial part of TOI and hence any fluctuation in the price is expected to impact the profitability of the company. Also, import of raw materials in US dollar denominated currency, further exposes the company to a forex risk. RFPL is partially constrained by regulatory risk arising from various laws and policies placed by Nepal, India and third countries. Hence, any unfavourable regulatory changes could adversely impact the financial profile going forward.

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 price being highly exposed to the whims of nature due to supply being dependent on availability of raw materials, pests or crop infection leading to higher unpredictability in production and pricing of agro commodities and its derivatives. 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.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
Incorporated in August 2021, RMC Foods Private Limited (RFPL) is a private limited company established for processing of Refined Oils, Rice Bran Oil, Acid Oil, Rice, Pulses, Bakery Shortening,

Margarine and Fat Spreads, Oil-Cake (By-product). Its plant is located in Jeetpur-07, Bara, Nepal and has installed capacity of 90,000 MTPA in refined oil segment. RFPL sells edible oils under major brand "Nutriplus". RFPL belongs to RMC Group where Mr. Shrawan Kumar Agrawal, Mr. Rajesh Kumar Agrawal and Mr. Bishnu Kumar Agrawal are the major promoters.

Financial Indicators (Standalone)

For the year ended* As on	FY23
	Audited
Total Operating Income (NPR Mn)	4,133
EBITDA Margin (%)	Negative
Interest Coverage Ratio (x)	Negative
Current Ratio (x)	1.03
Total Debt/GCA (years)	Negative
DSCR (x)	Negative
Overall Gearing Ratio (x)	2.37

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
Long Term Bank Facilities- Fund Based Loans	Long Term	793.00	IRN B+
Short Term Bank Facilities- Fund Based Loans	Short Term	310.00	IRN A4
Short Term Bank Facilities- Non Fund Based Loans	Short Term	4,430.00	IRN A4
Total Facilities		**5,533.00**	

Analyst Contacts

Mr. Saphal Maharjan
Tel No.+977-1-4583304/4585906
saphal.maharjan@infomericsnepal.com

Mr. Atish Ratna Shakya
Tel No.+977-1-4583304/4585906
atish.shakya@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
Tel No.+977-1-4583304/4585906
rabin.pudasaini@infomericsnepal.com

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 Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit https://infomericsnepal.com/

Infomerics Credit Rating Nepal Limited
Tanka Prasad Marga, Baneshwor Height, Kathmandu
Phone: +977-1-4583304/4585906
Email: info@infomericsnepal.com
Web: www.infomericsnepal.com