

PRESS RELEASE

SHIVASHAKTI AGRO AND FOODS INDUSTRIES PRIVATE LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	46.25	IRN BB-	Assigned
Short Term Bank Facilities	950.30	IRN A4	Assigned
TOTAL	996.55		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BB- (Double B minus) to the long-term bank facilities of NPR 46.25 Mn and rating of IRN A4 (A Four) to the short-term bank facilities of NPR 950.30 Mn.

Detailed Rationale

The ratings assigned to bank facilities of Shivashakti Agro and Foods Industries Private Limited (SAFI) derive strength from the significant revenue growth of the company over the past five years (FY19-FY23), with a compound annual growth rate (CAGR) of ~109%, and stable operating margins. Furthermore, the ratings also factor an improved capacity utilization achieved and proximity to Indian border. The assigned rating factors in good and stable demand outlook for rice, which is the major product line for SAFI. This coupled with the promoter's long experience in agro-based processing/trading business has helped in SAFI's performance.

However, the ratings are constrained by the company's leveraged capital structure, early stages of operations and limited track record. The agro industry is fragmented and highly competitive due to low entry barriers.. Therefore, the company's ability to maintain margins over the long term remains to be seen. Its revenue is also exposed to volatility from agro-climatic risks affecting crop production. The company's increased working capital intensity due to increased inventory levels, also pose liquidity concerns. Going forward, the ability of the company to scale up the business while controlling its working capital intensity and maintaining the margins and ensure adequate liquidity and coverage indicators will remain among key monitorable.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Significant revenue growth with moderate financial performance

SAFI has demonstrated significant revenue growth with CAGR of ~109% in its last five years of operation (FY19-FY23). The Total Operating Income (TOI) surged by ~67% (annualized) in 9MFY24 against FY23. Company has been able to maintain continuous marginal growth in EBITDA margin last 3 FY (FY21-FY23) with modest PAT margin. EBITDA margin for 9MFY24 has marginally decreased to 6.91% in 9MFY24 against 8.08% in FY23 due to increased raw material prices. The company's ability to stabilize operations while passing on the increased costs to the final consumer remains crucial amidst the competition, going forward.

Improved capacity utilization

During the period from FY22 to 11MFY24, the company has made significant strides in operational efficiency and sales performance. The installed capacity has remained steady at 12 MTPH, but operating capacity has increased from 5 MTPH in FY22 to 9 MTPH in 11MFY24, leading to a rise in capacity utilization from 42% to 82% (annualized).

Positive demand outlook

Driven by a steady increase in the consumption of packaged and processed rice, the rice industry in Nepal is experiencing a positive demand outlook. This rise in demand is attributed to changing consumer preferences, greater awareness of food safety, and an increasing population. Despite the challenges faced by the agricultural sector, domestic rice production remains relatively stable, providing a consistent supply to meet this growing demand. As a result, domestic millers like SAFI are well-positioned to benefit from these favorable market conditions, ensuring continued growth and stability within the industry.

Key Rating Weaknesses

Leveraged capital structure

The overall gearing ratio deteriorated to ~3.21x as on mid-April 2024 from ~1.61x as on mid-July 2023, due to increase in working capital loans. With the expected improvement in revenue reserves, margins and regular repayment of term loans, the overall business capital indicators are expected to improve going forward. Interest coverage indicators and debt service coverage indicators remains moderate ~1.37x and ~1.33x respectively as in 9MFY24 which is expected to improve given the improvement in operating profits. Additionally, GCA of the company is also expected to improve with the improvement in the business operation going forward.

Stretched liquidity profile

SAFI experienced a significant increase in its working capital intensity, rising to ~68% for 9MFY24 from ~46% in FY23. This surge can be attributed to increased sales coupled with a notable rise in inventory days, which expanded from 160 days as of mid-July 2023 to 182 days as of mid-April 2024. Although the ratio is expected to moderate in the coming years with stabilization in the business operations, the company is expected to be inventory heavy as a norm. These trends have hindered the company's operating cash flows and led to increased reliance on debt to meet business requirements, placing strain on liquidity.

Price volatility risk

Nepal imports paddy to meet domestic demand, which exceeds local production due to subsistence farming, fragmented practices, and limited availability of the required paddy variant. Consequently, large millers like SAFI rely heavily on imports from Indian suppliers. Any changes in import regulations can directly impact SAFI's business and cash flow. This risk is exacerbated by recent Indian government actions, such as imposing export duties and setting quotas on non-basmati rice exports.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in August 2018, Shivashakti Agro and Foods Industries Private Limited (SAFI) is a private limited company established for the processing of paddy into rice and value addition through ageing of purchased rice and its byproducts. Its plant is located in Kalaiya-09, Rampur, Bara, Nepal, and has an installed capacity of 12 MTPH. SAFI sells its products under registered brands such as Shiv, Param and Kitchen Master. Ownership of all shares lies with individual promoters, namely Mr. Bishnath Sah Rauniyar (73%), Mr. Uma Shankar Sah Rauniyar (13%), Mr. Seshnath Shah Rauniyar (7%), and Mr. Ram Niwas Prasad Gupta (7%).

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	9MFY24
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	612	738	926
EBITDA Margin (%)	7.86	8.08	6.91
Interest Coverage Ratio (x)	1.92	1.82	1.37
Current Ratio (x)	1.36	1.39	1.24
Total Debt/GCA (years)	12.53	10.43	35.37
DSCR (x)	1.88	1.78	1.33
Overall Gearing Ratio (x)	1.72	1.61	3.21

*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- Term Loan	Term Loan	46.25	IRN BB-
Fund Based Bank Facilities-Working Capital Loan	Short Term	450.00	IRN A4
Fund Based Bank Facilities-Working Capital Loan (Proposed)	Short Term	500.00	IRN A4
Non-Fund Based Bank Facilities- Bank Guarantee	Short Term	0.30	IRN A4
Total Facilities		996.55	

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About Infomerics Credit Rating Nepal Limited:

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