

Press Release

VALLEY PELLET FEED PRIVATE LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	772.81	IRN BB	Assigned
Short Term Bank Facilities	2,830.00	IRN A4	Assigned
TOTAL	3,602.81		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BB (Double B) to the long-term bank facilities of NPR 772.81 Mn and rating of IRN A4 (A Four) to the short-term bank facilities of NPR 2,830.00 Mn.

Detailed Rationale

The ratings assigned to bank facilities of Valley Pellet Feed Private Limited (VPFPL) derive strength from its established track record of operations (incorporated in 2008), along with the extensive experience of its promoters, who have over two decades of expertise in the feed and poultry sector. The ratings also factor the healthy revenue growth of the company over the past five years (FY19-FY23), with a compound annual growth rate (CAGR) of ~14.56%, and stable operating margins. VPFPL has maintained a satisfactory financial profile over the past five years, with adequate debt coverage indicators, which have been positively factored in the rating assignment.

However, the ratings are constrained by the liquidity concerns amid increasing working capital intensity of the company due to its increasing debtor level. Rating concerns also arise from the volatility in raw material prices due to supply-chain constraints or climatic reasons. This, along with the cyclical nature of the poultry industry and disease outbreaks (e.g., bird flu), can impact the company's revenue and margins. Additionally, high competition in the fragmented industry limits pricing flexibility, exposing the company's cash flows and margins to volatility.

Going forward, the company's ability to attain adequate revenue and margins, effectively 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

Established track record of operations and experienced promoters

Incorporated in 2008, VPFPL is promoted by the Valley Group, which operates group of diverse units across the poultry business. Promoters have over two decades of experience and an established presence in the feed manufacturing and poultry sector and are involved in multiple business activities in poultry segment.

Moderate financial profile and debt service coverage indicators.

Over the last five FYs (FY19-FY23), VPFPL has demonstrated upward trend in its Total Operating Income (TOI), exhibiting CAGR of ~14.56% with slight moderation of ~3% in FY23 (NPR 3,941 Mn in FY23), majorly on account of increase in overall average price realization. Also, the company's EBITDA margin has remained stable at ~6% in last 3FYs (FY21-FY23). Overall gearing ratio of the company deteriorated to 2.81x in FY23 (2.33x in FY22) due to increase in working capital loan. Interest coverage ratio and DSCR remained moderate and stood at 1.51x and 1.42x respectively in FY23.

Key Rating Weaknesses

Stretched liquidity amid high working capital intensity

VPFPL's working capital intensity, which remained largely steady at ~30% over the last three FYs, increased to ~37% in FY23. This was mainly on account of the increased debtor days to ~99 in FY23 from ~71 in FY22. This has led to increasing use of working capital loans, thereby increasing the gearing levels. Amid the slowdown in general economic activities, the debtor risk remains elevated. The company's ability to implement prudent working capital management practices would remain crucial, given the sharp scale up in operations in the recent years.

Fragmented and competitive nature of industry

The feed industry is highly fragmented, with numerous organized and unorganized players due to low entry barriers and minimal technology and capital requirements. VPFPL faces intense competition from large-scale collectors, millers, traders, and wholesalers, given the low differentiation of its products. In this competitive landscape, small and medium-sized manufacturers have limited pricing power, with prices primarily dictated by market dynamics, highlighting the vulnerability of their operations to market fluctuations.

Inherent risk given direct linkage with poultry industry

The business of VPFPL is directly tied to the poultry industry, making its risk profile dependent on the industry's performance. Any significant adversities in the poultry sector, such as disease outbreaks or decreased consumption, directly impact feed producers like VPFPL.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in August 27, 2008, Valley Pellet Feed Private Limited (VPFPL) is a producer of poultry pellet feed in Nepal with its factory in Hetauda, Makwanpur. The company currently manufactures four categories of poultry pellet feed along with mash feed formulated for broiler breeder. It is operating under Valley group brand. As on mid-April 2024, the company has an annual installed capacity of 70,000 metric tonnes per annum.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	3,106	4,063	3,941
EBITDA Margin (%)	6.27	6.11	5.69
Interest Coverage Ratio (x)	3.14	2.76	1.51
Current Ratio (x)	1.17	1.24	1.18
Total Debt/GCA (years)	7.50	9.25	20.44
DSCR (x)	2.76	2.33	1.42
Overall Gearing Ratio (x)	1.78	2.33	2.81

*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	772.81	IRN BB
Short Term Loan Facilities- Fund Based Loan	Short Term	710.00	IRN A4
Short Term Facilities- Non-Fund Based Loan	Short Term	2,120.00	IRN A4
Total Facilities		3,602.81	

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About Infomerics Credit Rating Nepal Limited:

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