

## PRESS RELEASE

### SAURABH FOOD PRODUCTS PRIVATE LIMITED

November 2024

#### Ratings

Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,187.42 (Enhanced from 303.71)	IRN B	Reaffirmed and removed from "Issuer Not Cooperating" category
Short Term Bank Facilities	1,440.00 (Reduced from 1,910.74)	IRN A4	Reaffirmed and removed from "Issuer Not Cooperating" category
<b>Total</b>	<b>2,627.42</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN B (Single B) assigned to the long term bank facilities of NPR 1,187.42 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,440.00 Mn. Also, the ratings have been removed from Issuer Not Cooperating category.

#### Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Saurabh Food Products Private Limited (SFPP) derive strength from parentage of experienced promoter group "KL Dugar" coupled with established and long track record, supported by proficient management team. Furthermore, the ratings also factor proximity to Indian border, moderate capacity utilization, trusted brand recognition backed by established and prominent corporate group.

These rating strengths are partially offset by below average financial risk profile, highly leveraged capital structure and weak debt service coverage indicators of the company, working capital intensive nature of business, raw material price volatility risk and exposure to regulatory risk. Going forward, the ability of the company to manage growth in the operation while improving its profit margins with prudent working capital management will remain a key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

#### Established and long track record of operation with experienced promoters and management personnel

SFPP has been in operation for more than two decades in processing and manufacturing of rice, mustard oil and trading of lentils and soya chunks. Further, SFPP is a part of KL Dugar Group having strong presence in Nepal through their group entities in various industries like food grain, packaging, herbal extraction, hydropower, cement, construction and banking & finance. Mr. Naresh Dugar, Managing Director has over two decades of experience in trade and industry. He also holds directorship in various other group companies.

#### Proximity to Indian border and moderate capacity utilization

The SFPP plant's strategic location near the Indo-Nepal border allows for significant savings in freight costs for raw materials imported from India, enhancing its cost efficiency and competitive advantage. While the average capacity utilization is moderate at 31% for rice and 41% for oil over the past three FYs (FY22-FY24), this presents a valuable opportunity for growth. With a total installed capacity of 79,570 metric tons per annum (MTPA), SFPP is well-positioned to optimize production and implement strategic initiatives, such as improving marketing efforts and diversifying product lines, to better align with market demand and fully leverage its capabilities.

#### Trusted brand recognition backed by established and prominent corporate group

Through its affiliate company, KL Dugar Group supplies more than 180 product items of rice, pulses, cereal, baby food, spices, tea, flours, edible oil and other food grains in different packages, from its own sales depots. SFPP sales rice and others under brand "Gyan" with Mustard oil under brand "Bigul" and "Gyan", in a varied quantity. Established brand image backed by the longstanding experience of

promoters is further expected to reduce the impact of competition induced volatility in prices and maintain a significant presence in the Nepalese market with healthy turnover.

## Key Rating Weaknesses

### **Below average financial profile characterized by decline in profitability**

SFPP generates its revenue from sale of variety of rice, mustard oil, dal, mustard cake, soya chunk and other. Total operating income of the company increased to NPR 3,061 Mn in FY24 from NPR 2,196 Mn in FY23 indicating growth by ~39%; majorly on account of increase in rice segment with increase in bran segment which was further contributed by increase in overall average price realization of cake and dal segment. However, the company's EBIDTA margin has decreased to 0.07% in FY24 from 0.41% in FY23 due to increase in price of raw material mainly paddies. Consequently, the company reported net losses and negative cash accruals in FY23 and FY24. The ability of SFPP to manage growth in the operations & improving the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

### **Highly leveraged capital structure and weak debt service coverage indicators of the company**

The company's overall gearing ratio has fluctuated significantly in recent years, reflecting a challenging capital structure. At the end of FY22, the ratio was an unfavorably high 62.22x, indicating substantial leverage. By FY23, this position deteriorated further to -8.19x placing the company in a negative gearing situation. This trend continued in FY24, where the ratio, though slightly improved, remained high at -5.13x. Similarly, the interest coverage ratio of the company remained weak at 0.01x in FY24 deteriorated from 0.05x in FY23 due to decrease in EBIDTA and increase in total debt and finance cost. Furthermore, the total debt/ Gross Cash Accruals remained negative in FY23 and FY24.

### **Working capital intensive nature of business**

The operations of the company are working capital intensive in nature. SFPP is involved in processing of paddy and mustard oil seeds into various other edible items by procuring raw material both locally and by importing from India and other countries. SFPP purchases raw materials from various farmers, stockiest, and traders in the domestic market and receive a week credit period. SFPP procure raw materials of rapeseed from Ukraine, Canada, Singapore, Australia which cover lead period of 2-3 months. SFPP procure the raw materials through LC at sight and payment is done at the spot rate. Due to seasonal nature of raw materials, SFPP maintains stock for around 4-5 months for smooth operations. Average inventory days was 161 days in FY24 decreased from 184 days in FY23, and average debtors turnover days was 58 days in FY24 vis-à-vis 59 days in FY23. Total operating cycle of the company increased to 211 days in FY24 from 231 days in FY23 and 190 days in FY22. This had led to high reliance of the company on the bank finance for working capital needs. Working capital intensity decreased to 49% at the end of FY24 due to increase in total operating income at the end of FY24 from 50% in FY23.

### **Seasonal agro products in competitive industry**

Being an agricultural commodity, planting, production, and prices are highly influenced by the timing and intensity of the monsoon rain, as well as the area being produced, the yield for the year, the demand-supply situation, and inventory carryover from the previous year. Further, milling industry 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](#)

### **Past Rating Rationale:**

[Bank Facilities Rating Revised and moved to Issuer Not Cooperating category with notice of withdrawal](#)

[Fresh bank loan rating assigned on December 2022](#)

## About the Company:

Incorporated in May 1999, Saurabh Food Products Private Limited (SFPP) is a private limited company established with an objective of manufacturing and trading of rice, edible oil and other food products. Its plant is located in Chhata Pipra-03, Bara, Nepal and has installed capacity of 61,320 MTPA in rice segment with crushing capacity of 18,250 MTPA in Mustard Oil. It is a part of KL Dugar Group promoted by Mr. Naresh Dugar and Mr. Kumud Dugar.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	1,766	2,210	2,196	3,061
EBITDA Margin (%)	4.53	6.47	0.41	0.07
Interest Coverage Ratio (x)	0.92	1.02	0.05	0.01
Current Ratio (x)	1.15	1.15	1.25	1.05
Overall Gearing Ratio (x)	46.28	62.22	Neg.	Neg.
TOL/TNW (x)	50.64	71.87	Neg.	Neg.

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

*Total Outside Liabilities/Tangible Net Worth (TOL/TNW)*

*\*Classification as per Infomerics Nepal standards*

## Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan (TL)	Long Term	1,187.42	IRN B
Fund Based Bank Facilities-Working Capital	Short Term	1,430.00	IRN A4
Non Fund Based Bank Facilities-LC/BG	Short Term	10.00	IRN A4
<b>Total Facilities</b>		<b>2,627.42</b>	

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## About Infomerics Credit Rating Nepal Limited:

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