Global Agro Products Private Limited: [ICRANP] LBB+/A4+ assigned

February 17, 2020

Summary of rated instruments

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loans; fund-based	101.61	[ICRANP] LBB+; Assigned
Short-term loans: fund-based and non-fund based	565.30	[ICRANP] A4+; Assigned
Short-term loans: fund-based (proposed)	33.09	[ICRANP] A4+; Assigned
Total	**700**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB+ (pronounced as ICRA NP L double B plus) to the long-term loans of NPR 101.61 million and a short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the short-term loans of NPR 598.39 million of Global Agro Products Private Limited (GAPPL).

Rationale

The assigned ratings factor in the healthy operational track record of the company with a consistent operating profit margin (OPBDITA/OI) [1] despite having a moderate age of operation[2], moderate gearing level with continuous improvement in recent times and moderate coverage indicators of the company so far with an average ICR of around 3x and cumulative DSCR of 1.88x in the last three years ending FY2019. Likewise, the relatively lower financial burden amid lower working capital intensity (NWC/OI)[3] of the company that remained aided by relatively higher payable days[4]. The coverage indicators remained supported by an interest subsidy of 5% in working capital loans of up to 50 million, accorded to an agriculture-based industry, lower working capital intensity and lower principal repayments towards long-term assets. The assigned ratings also factor in the positive demand outlook for the pellet industry over the medium term and prior experience of the major promoters in the related feed industry that provided the company with an acquainted and established clientele, resulting in a fair sales profile.

The ratings are, however, constrained by the inherent risks in poultry and related businesses in the form of volatile realisations, vulnerability of margins to fluctuations in raw material prices and forex, and disease outbreaks (bird flu), etc. that can sensitise the company's revenue stream. Also, the stretched liquidity profile of the company, a result of the creation of capital assets from short-term loans in the past, thus lowering the current ratio to less than 1x, remain a concern. This is likely to improve going forward following the disbursal of a new mid-term loan to manage the same. The ratings are also constrained by the highly competitive nature of the industry, which limits the pricing flexibility of the industry participants, including GAPPL. Moreover, the company's operations and profitability are also susceptible to the availability, pricing and forex fluctuation risk in raw material procurement that might remain affected by the agro-climatic conditions in Nepal, India and the US from where the raw materials are currently being procured. Similarly, the company's revenue growth and profitability are exposed to external factors such as low entry barriers and high industry fragmentation (with many organised and unorganised players).

Key rating drivers

Credit strengths

Moderate gearing levels with continuous improvement in recent times; the same is expected to increase marginally in FY2020 and improve thereafter: The gearing has improved in recent times amid an increase in the net worth that remained supported with retained earnings of FY2018 and FY2019. With an increase in business and loan to support the same, the gearing reached a high of 3.32 times in FY2017 and later with retention of profit of FY2018 and FY2019, it gradually

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[1] *OPBDITA/OI is Operating profit before depreciation, interest, taxation and amortization by Operating Income.*
[2] *The company is in operation for around ~6 years now.*
[3] *NWC/OI of average of 16% in the last three years ending FY2019*
[4] *Payable days remained at an average of ~87 days in last three years ending FY2019.*

decreased thereafter to remain at 2.11x as at the end of FY2019. However, amid the recent increase in loan limits to support the business growth and liquidity profile, the company's gearing is expected to increase marginally in FY2020 and remain comfortable thereafter, amid expected growth in sales, increase in reserves, repayments of long-term loan and lower utilisation of working capital loans.

Healthy operational track record with consistent profitability indicators; expected to remain at similar levels going forward: The company managed to be in profit since its inception with a fair sales level amid acquainted and established clientele, arising from the prior experience of the promoters in the related sector. The profitability indicators OPM and NPM remained at 6% and ~2% respectively, with the ROCE[5] and the RoNW[6] of 17% and 29% respectively in the last three years ending FY2019. Nonetheless, the unfavorable agro-climatic changes, fluctuations in raw material prices in Indian and the US markets and the forex fluctuation risk as well as other regulatory norms impacting imports of these raw materials can be sensitising the profitability of the industry, including that of GAPPL.

Moderate debt-servicing ability with cumulative DSCR of 1.88x so far; expected to improve over time with repayment of term loans: The coverage indicators for the company remains good with average ICR of ~3x and a cumulative DSCR of 1.88x in the last three years ending FY2019. Going forward, the cumulative DSCR is expected to strengthen further, supported by the increase in business, an interest subsidy of 5% in working capital loans up to 50 million, lower working capital intensity of ~20% and the repayment of long-term loans.

Prior experience and commitment of major promoters remain a comfort in driving business ahead: GAPPL has been promoted primarily by eight individual shareholders (~52%) who have rich prior experiences in the related feed industry. Their prior experiences of over a decade in the marketing, finance and production departments in the feed industry helped the company in building a good rapport with the key stakeholders of the company, thus supporting its raw material procurement and sales market, which remained crucial for the company, especially in its initial days of operation. Their extensive engagement in the day-to-day affairs of the company as a management team and representation in the board of directors remains a comfort in driving the business of the company in days ahead. Mr. Basanta Poudel is the chairperson of the board of directors of the company.

Credit challenges

Stretched liquidity profile with mismatch in long-term and short-term assets: Working capital limit utilisation that remained on the higher side due to financing of long-term assets through short-term loans, created a mismatch in long-term assets and short-term loans. These lowered the current ratio to slightly lower than 1x and stretched the liquidity profile to some extent. However, to manage this mismatch, the bank now has disbursed a new medium-term loan which is expected to comfort the liquidity profile of the company going forward. Going forward, the NCA is expected to remain comfortable to serve the principal repayment of long-term loan amid expected increase in sales and consistent operating margins. Nonetheless, managing debtor days inventory levels and payable days would remain critical in comforting the liquidity position of the company in the days ahead.

Competitive intensity limits pricing flexibility: The intense competition prevailing in the pellet feed industry, characterised by the presence of many players along with low value-additive nature of operations, limits the pricing flexibility and keeps the profit margins under check. The pellet feed industry is highly fragmented with many organised and unorganised players resulting in low entry barriers and low complexity of the work involved. These factors pressurise the pricing flexibility of the company.

Margins susceptible to raw material price and forex fluctuations and agro-climatic risk: The major raw materials, maize and soya, of the pellet industry are subjected to various factors such as agro-climatic risks, fluctuation in prices of raw materials as well as forex fluctuations. These factors can affect the availability and pricing of these raw materials which can affect the company's margins.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology

[5] Return on capital employed
[6] Return on net worth

ICRA NEPAL

About the company

Incorporated in July 27, 2012, Global Agro Product Private Limited (GAPPL) is a manufacturing unit that manufactures pellet and mash feed for poultry and livestock. The company has two production lines - Pellet Feed line and Mash Feed line. The total production capacity of the pellet feed is 10MT per hour while the same is 5MT per hour for mash feed. The company is selling its products under the brand name Global, Amrit and Unnat. Major raw material, maize, is procured primarily from India while soya is purchased from the US. The company has been promoted by a group of 38 individual shareholders (of which eight hold a majority stake of ~52%). Major shareholders have prior experiences in the related feed industry. The factory plant is situated at Bharatpur, Chitwan, Bagmati province, Nepal

Note: Though the company has been incorporated as Global Agro Product P. Ltd. in the Office of Company Registrar (OCR), all the transactions of the company have been done under the name of Global Agro Products P. Ltd. We have also considered the same name (Global Agro Products P. Ltd) for the bank loan rating exercise. However, as discussed, the management would be operating under the name as registered in the OCR in the days ahead.

Key Financial Indicators

Amount in NPR million	FY14	FY15	FY16	FY17	FY18	FY19	6MFY20
	Audited					Provisional	
Operating Income	242	1,073	1,473	1,320	1,621	1,759	1,172
OPBDIT/OI (%)	7%	4%	4%	6%	7%	6%	5%
PAT/OI (%)	1%	1%	1%	2%	2%	2%	3%
Gearing (times)	1.62	2.07	2.40	3.32	3.01	2.11	2.39
OPBDITA/Interest (times)	2.09	2.95	4.52	3.65	2.89	2.61	3.09
DSCR (times)	2.05	1.52	1.99	2.01	1.92	1.77	1.47
NWC/OI (%)	34%	9%	7%	14%	18%	16%	18%
Total outside liabilities/TNW (times)	2.72	4.71	5.88	7.08	6.21	4.41	4.38
Total debt/OPBDITA (times)	8.01	3.80	3.60	3.79	3.56	3.14	3.74

Annexure-1: Instrument details

Instrument	Limit (NPR in Million)	Ratings
Existing Loan Limits		
Long-term loans, fund-based (A)	**101.61**	
Fixed Term Loans	40.60	[ICRANP] LBB+
Mid Term Loan	47.50	[ICRANP] LBB+
Hire Purchase Loan	13.51	[ICRANP] LBB+
Short-term loans, fund-based (B)	**235.00**	
Demand Loans	185.00	[ICRANP] A4+
Overdraft (OD) / Cash Credit (CC)	50.00	[ICRANP] A4+
Trust Receipt/Demand Loan (within LC limit)	(240.00)	[ICRANP] A4+
Short-term loans, non-fund based (C)	**330.30**	
Letter of Credit (LC)-Sight/Usance	330	[ICRANP] A4+
Bank Guarantee	0.3	[ICRANP] A4+
Purposed Limits; Short-term fund-based (D)	**33.09**	[ICRANP] A4+
Grand total (A+B+C+D)	**700**	

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About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

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