Mahabir International Suppliers Private Limited: [ICRANP] LBB-/A4 assigned

September 13, 2021

Summary of rated instruments

Instrument*	Rated Amount (NPR Million)	Rating Action
Fund-based; long-term limits	40.0	[ICRANP] LBB-; assigned
Fund Based; short-term limits#	530.0	[ICRANP] A4; assigned
Total	**570.0**	

 # interchangeable between fund-based and non-fund based

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the NPR 40-million fund-based long-term loans of Mahabir International Suppliers Private Limited (MISPL). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the NPR 530-million fund-based limits (including embedded non-fund based limits) of MISPL.

Rationale

The assigned rating factors in the long track record of the company's promoters in the primary food processing industry in Nepal. MISPL, along with its two sister units (separate companies), is among the large players in the pulse processing segment. The rating notes the good demand prospect for beans and pulses, its major products and a major part of domestic staple diet, as evidenced by healthy sales growth with stable margins during the last four to five years. The rating also considers MISPL's established supply chain and traction in the local market as well as its diversified customer base.

The rating is, however, constrained by the company's leveraged financial profile. This coupled with relatively small scale of operation and low economies of scale translates into a moderate operating profit margin and debt coverage ratios. The food processing industry witnesses stiff competition due to the low entry barriers and resulting fragmentation. This has led to stretched debtor and inventory days translating into an increased working capital intensity for MISPL during the last three to four years. This has increased its reliance on external working capital financing, thereby increasing its leverage and associated costs. This has affected its liquidity as evident from the frequent overutilisation of the drawing power limit by MISPL in the recent years, especially towards the year end. At the same time, the debtors remain mostly unsecured, which exposes the company to non-realisation risk. MISPL's business remains almost entirely import-based, which makes it vulnerable to any change in the Government of Nepal's (GoN) policy on general imports, its agriculture-related policies as well as the changes in global prices of the agricultural commodity. Being an agro-based industry, MISPL is also exposed to agro-climactic risk, which has been factored into the rating action.

Key rating drivers

Credit strengths

Promoters' industry experience - The Kedia Group, the major promoter group of MISPL, is among the established business houses in Nepal with investment across diversified segments such as trading, manufacturing and financial services. The Group has a long history in the trading and processing of food grains in Nepal, which remained its major business portfolio, before its diversification into other sectors. In addition to MISPL, which deals mostly in pulses and beans, the Group has two other units with similar business profile, as well as multiple units involved in primary food processing related to wheat, sugarcane, rice, edible oil, etc. The resulting business synergies in purchase, distribution and recovery processes remain a positive for MISPL.

Positive demand outlook - Pulses and beans, MISPL's major product lines, are a part of Nepal's staple diet. With growing urbanisation, spending power and slowdown in the growth of the domestic agricultural output, the demand outlook for players like MISPL, that are involved in the import and processing of pulses have improved considerably over the recent years. This is also reflected in the healthy

CAGR[1] of ~50% during the last four financial years ending in FY2021 (albeit on a low base), with similar growth trend shown by the other pulse processing units under the Group.

Established sales channel and diversified customer base - The company has an established supply chain, comprising over 50 distributors across the country. Although the sales remain relatively concentrated with the top 10 customers accounting for ~55% of its sales in FY2021, MISPL's long track record with these customers remain a source of comfort.

Credit challenges

Moderate financial profile stemming from leveraged capital structure - MISPL's financial profile remains moderate with relatively small scale of operation, muted operating profitability and a leveraged capitalisation profile. The company's operating profitability remains muted on account of its moderate sales volume (despite the recent growth) and limited economies of scale. As of mid-July 2021, MISPL's gearing ratio stood at ~3 times with TD/OPBDITA[2] of 4.7 times and TOL/TNW[2] of ~7 times (Vs. 14.3 times, 9.3 times, and 14.5 times, respectively, as of mid-July 2020). High debt burden and moderate profitability resulted in a subdued debt coverage metrics with interest coverage ratio of ~1.8 times in FY2021 (~1.3 times in FY2020).

Working capital-intensive nature of business strains liquidity - MISPL's business remains highly working capital-intensive by nature owing to the high inventory holding period and the high credit period allowed to the customers. This resulted in a high NWC/OI[3] ranging within 30% to 100% during the last four financial years ending FY2021. This necessitates working capital financing, which is largely financed through the external borrowings giving rise to the credit costs, thereby affecting its profitability and cash flows. The stretched liquidity is also evident from the occasional breach of drawing power by the company in the recent years, specially towards the end of the fiscal and a weak current ratio (~1 times during the last three financial year end). The short-term liquidity stress is also partly attributable to the use of short-term loan for capex financing over last two to three years. However, the recent utilisation of long-term limits is expected to rectify this mismatch and improve MISPL's short-term liquidity position.

Expected increment in finance cost ratio - The company has been availing USD Trust Receipts (TR) loans to finance its imports. The finance cost on dollar TR remained lower than the cost of utilisation of NPR-based short-term funds in FY2021, thus lowering its overall finance cost. However, the recent regulatory changes (by the regulator Nepal Rastra Bank or NRB) reducing the tenure of dollar TR loans (from 180 days to 90 days) is likely to increase the company's dependence upon NPR-based short-term funds. This amid the rising cost of fund in the financial market, along with the cost and repayment obligations associated with the recently availed term loan, is likely to increase the overall finance cost and thus dampen MISPL's debt coverage indicators, going forward.

Fragmented market amid competition - The pulse processing industry in the country consists of several organised/unorganised players. This, coupled with the low entry barrier, exposes players like MISPL to an uncertain competitive landscape. Rising competition in the industry is also partly responsible for the increasing debtor and inventory realisation period for the players.

Import, forex and agro-climactic risks - Nepal is a net importer of food products, including pulses, as the domestic demand exceeds the domestic agricultural output, which is mostly subsistence-based and results in low agricultural surplus at the producers' level. As such, players like MISPL are highly reliant on import for their business. Therefore, any change in the import regulations related to agricultural produce can have a direct impact on the company's business and cash flow.

Imports by MISPL are mostly made under US dollar-denominated contracts from suppliers in countries across the world, while sales realisation is made in domestic currency in Nepal. Since it uses USD-denominated TR loans for financing such imports, which are not completely hedged, MISPL remains exposed to the risk arising from the volatility in the forex market. Also, being a part of the agro-based industry, its revenue and profitability remain susceptible to the changes in agricultural production arising from agro-climatic risks like floods, drought, pests, etc.

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

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1 Compound Annual Growth rate

2 TD – Total debt, OPBDITA – Operating profit before depreciation interest tax and amortisation, NCA – Net cash accruals, CAGR-compound Annual growth rate, DSCR-Debt Service Coverage Ratio

3 Net working capital intensity to Operating Income

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company

Mahabir International Suppliers Private Limited (MISPL), a unit under the Kedia Group, one of the reputed business houses in Nepal with multiple agro-processing units, was incorporated in 2014 as a private limited company. MISPL is mainly involved in the trading of imported pulses and beans. The company imports and processes pulses and beans, which are then packaged and sold under the brand name Yasoda, Uttam and Rajhans. The promoter group, through units such as MISPL and its sister entities like Mahabir Overseas Pvt Ltd[4], Mahabir holdings Pvt Ltd, is one of the major players in the pulse processing business in the country.

MISPL's entire paid-up capital of NPR 65 million (as of Mid-July 2021) is held in equal proportions by Mr. Mukti Kumar Agrawal and Mr. Ankit Kedia. Mr. Agrawal is also the Chairman and Director of the company.

Key financial indicators

	FY2019	FY2020	FY2021
	(Audited)		(Provisional)
Operating Income-OI (NPR million)	783.2	1,079.0	1,182.3
OPBDITA[5]/OI (%)	6.8%	6.8%	6.0%
Total Debt/Tangible Net Worth (TNW; times)	21.5	14.3	3.1
Total Outside Liabilities/TNW (times)	32.6	14.5	6.9
Total Debt/OPBDITA (times)	7.2	9.3	4.7
Interest Coverage (times)	1.4	1.3	1.8
NWC[6]/OI (%)	46%	62%	28%
Current Ratio (times)	1.0	1.0	1.0

Annexure-1: Instrument details

Instrument	Rated Amount (NPR Million)	Ratings
Long-term loans; fund-based (term loan)	40.0	[ICRANP] LBB- (Assigned)
Short-term loans: fund-based (overdraft)	20.0	[ICRANP] A4 (Assigned)
Short-term loans: fund-based (short term loan, Demand Loan, Import/TR loan) *	510.0	[ICRANP] A4 (Assigned)
Total (NPR Million)	**570.0**	

**interchangeable between fund-based and non-fund based.*

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[4] *Mahabir Overseas Pvt Ltd, sister unit of the group with similar business of MISPL, is rated at LBB-/A4 (May 2020) and another sister unit, Mahabir Holdings is rated at A4 (January 2021) by ICRA Nepal.*
[5] *Operating profit before depreciation, interest, tax and amortization*
[6] *Net working capital intensity*

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About ICRA Nepal Limited:

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