

Balaji Enterprises Private Limited: [ICRANP] LBB-/A4 assigned

May 17, 2022

Summary of rating action:

Instrument*	Current Rated Amount (NPR Million)	Rating Action
Fund-based; long-term limits	86.2	[ICRANP] LBB-; assigned
Fund-based; short-term limits	50.0	[ICRANP] A4; assigned
Non-Fund-based; short-term limits	530.0	[ICRANP] A4; assigned
Short-term limits (unallocated and proposed)	83.8	[ICRANP] A4; assigned
Total	750.0	

* 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 long-term limits of Balaji Enterprises Private Limited (BEPL) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term (including proposed) limits of BEPL.

Rationale

The assigned ratings factor in the long track record of the company's promoter in the food grain trading industry in Nepal. The ratings note the good demand prospect for food grains and legumes, which form a major part of the staple diet in Nepal, evident from the healthy growth in OI¹ with CAGR of ~35% in the last three years (notwithstanding nominal decline of ~10% in FY2021) and annualised growth of ~52% in 8M FY2022. The ratings also consider BEPL's moderate gearing and comfortable debt coverage indicators during the last four years ending in FY2021.

The ratings, however, remain constrained by BEPL's moderate profitability profile and weak liquidity position. Although, the company's operating margin reported marginal improvement in FY2021 (OPBDITA/OI of ~2% for FY2021 vs. ~1.9% for FY2020), it remains on a lower side given BEPL's scale of operations. The rating concern also arise with the expected moderation in profitability going forward, with the recently availed term loan, given the company's low operating margins. Moreover, the company's liquidity position remained strained with the overutilisation of the drawing power for working capital loans. At the same time, the debtors remain mostly unsecured, which exposes the company to non-realisation risks. BEPL's business remains mostly import-based (~60% of products imported from India in FY2021), which makes it vulnerable to supply chain disruptions, changes in the Government of Nepal's (GoN) policy on general imports, its agriculture-related policies and the changes in global prices of the agricultural commodity. BEPL, being in an agro-based industry, is also exposed to the agro-climatic risk, which has been factored into the rating action.

Going forward, BEPL's ability to attain healthy sales growth, improve its margin and manage its working capital will have a bearing on its profitability, capitalisation, and coverage ratios, and therefore will remain key rating sensitivities.

¹ Operating income

Key rating drivers

Credit strengths

Promoters' industry experience – Mr. Mukesh Kumar Agrawal (Managing Director) has over two decades of experience in the trading of food grains in Nepal; including the period before setting up BEPL. Likewise, Mr. Nitin Agrawal (Chief Executive Officer), has over seven years of experience in trading. The promoters' and key management's experience, traction in the local market and sectoral expertise remain rating positives.

Positive demand outlook – BEPL's major product lines, such as peas, maize, and rice, are a part of Nepal's staple diet. The demand outlook for food items is expected to be good, with growing urbanisation and growth in disposable income. Moreover, amid the slowdown in the domestic agricultural output growth, the demand outlook for players like BEPL, that mainly imports (~60% of products imported from India in FY2021) and trades in food grains and legumes has improved considerably over the recent years. This is also reflected in the healthy CAGR of ~35% during the last three financial years ending in FY2021 (albeit on a low base) and annualised growth of ~52% in 8M FY2022.

Comfortable coverage indicators with moderate gearing – BEPL's coverage indicators remain comfortable with interest coverage ratio of ~3.0 times in FY2021 (~2.5 times in FY2020) and debt service coverage ratio (DSCR) of ~2.5 times in FY2021 (~2.2 times in FY2020). The coverage indicators improved due to scale growth and low debt service obligation, despite a moderate profitability profile. However, the coverage indicators could remain suppressed given the recent uptick in the interest rates on borrowings. Additionally, the company's gearing improved to ~3.3 times in FY2021 from ~5.5 times in FY2020 with the retention of internal accruals and reduction in total debt in FY2021. However, the cost and repayment obligations associated with the recently availed term loan (~NPR 83.5 million in FY2022) are likely to increase the overall finance cost and suppress BEPL's coverage indicators, going forward.

Credit challenges

Moderate profitability profile and stretched liquidity – BEPL's profitability profile remained moderate with a low operating margin of ~2% during the last four financial years ending FY2021, partly due to the penetrative market strategy adopted by the company. Further, the RoCE² decreased to 14% in FY2021 (from ~19% in FY2020) amid decline in the operating income by ~10% during the year. The company's profitability in years ahead is expected to slightly moderate amid rising finance cost induced by the liquidity crunch in the market and repayment obligations of the additional term loan availed in FY2022. Moreover, BEPL's overutilisation of the drawing power in the recent years and a weak current ratio (~1 times during the last five financial years) indicates strain in the company's liquidity.

Fragmented market amid competition – The food grain and legumes trading industry in the country consists of several organised/unorganised players. This, coupled with the low entry barriers, exposes players like BEPL to an uncertain competitive landscape, which could have further suppressing effect on the already moderate margins of BEPL.

Import and agro-climactic risks – Nepal is a net importer of food products, including food grains, legumes, and animal feed, 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 BEPL 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 flows. Additionally, the Government regulations on import restrictions can adversely affect

² Return on Capital Employed

the company's revenues. Also, being a part of the agro-based industry, its revenues 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 ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Balaji Enterprises Private Limited (BEPL), incorporated in August 2015, is an importer and trader of various food grains, legumes, and animal feed. Its corporate office is in Birgunj, Nepal. The company sources its trading items mainly from India and to some extent, from farmers in Nepal. The unprocessed grains/legumes are sold to processing mills in Nepal, whereas the processed items are sold to retailers in Nepal. The animal feed is sold to individuals and companies involved in animal husbandry.

The entire stake of Balaji Enterprises is held by Mrs. Babita Kumari Siska (Agrawal). Mr Mukesh Kumar Agrawal, the husband of Mrs. Babita Kumari Siska (Agrawal), is the Managing Director of Balaji Enterprises Private Limited. Mr. Agrawal is a seasoned professional in trading of food grains and animal feed with over two decades of experience. Mr. Agrawal, along with his son Mr. Nitin Agrawal (Chief Executive Officer), are actively managing the business.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)
Operating income-OI (NPR million)	355	1,526	1,967	4,195	3,750
OPBDITA/OI (%)	1.6%	2.0%	1.9%	1.9%	2.0%
Total debt/Tangible net worth-TNW (times)	4.1	4.0	4.6	5.5	3.3
Total outside liabilities/ TNW (times)	6.9	12.5	13.4	15.3	7.5
Total debt/OPBDITA (times)	9.6	4.2	5.3	5.8	5.6
Interest coverage (times)	1.7	2.3	2.2	2.5	3.0
DSCR	1.5	2.0	1.9	2.2	2.5
NWC /OI (%)	18%	10%	12%	13%	14%
Current ratio (times)	1.1	1.1	1.1	1.1	1.1

Source: Company data

Annexure-1: Instrument Details

Instrument	Current rated Limit (Amount in NPR Million)	Rating Action
Long-term loan limits	86.2	[ICRANP] LBB-; assigned
Fund-based (Fixed term loan)	86.2	
Short-term loan limits (B)	663.8	[ICRANP] A4; assigned
Non-fund based; Letter of Credit/ Bank Guarantee	530.0	
Fund-based (Overdraft)	50.0	
Fund-based (TR/STL, within non-fund based)	(530.0)	
Proposed loan; unallocated	83.8	
Grand Total (A+B)	750.0	

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4419910/20)
sailesh@icranepal.com

Ms. Kushum Bhattarai, (Tel No. +977-1-4419910/20)
kushum@icranepal.com

Ms. Banu Pandey, (Tel No. +977-1-4419910/20)
banu@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)
barsha@icranepal.com

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, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents